

Fondazione Luigi Einaudi

Studi

36

«FROM OUR ITALIAN CORRESPONDENT»

LUIGI EINAUDI'S
ARTICLES IN *THE ECONOMIST*, 1908-1946

Edited by
ROBERTO MARCHIONATTI

II
1925-1946



Leo S. Olschki editore
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124.

ITALY

VICTORY OF MODERATES AT LABOUR CONGRESS – FASCIST STRIKES –
RISE IN COST OF LIVING – STATE FINANCES AND INTER-ALLIED DEBTS

From our Correspondent

Turin, January 10

As foreseen in my last letter (*Economist*, December 13th), the Congress of the General Labour Confederation, held in Milan in the second week of December past, ended in a victory for the moderate section of trade unionism by a majority of 135,316 votes, against 54,792 Maximalist Socialist and 32,596 Communist votes. The majority stood on the ground of democratic government, and of class struggle, but not minority proletariat dictatorship. It was resolved that trade unions should keep themselves independent from political parties. The resolution was in some quarters welcomed as an augury of a new Labour Party, somewhat after the fashion of the British Labour Party. Political conditions and historical precedents make it, however, highly improbable that a Labour Party will succeed against old-established Socialist parties. The splitting of these into Socialist proper and Communists was inevitable; and it is probable that the moderate or united party will gather around itself the great thinking majority of the working classes.

Fascists struggle fiercely to win over working-men from the allegiance to Socialist parties. But they are meantime apt to become entangled in the vagaries of Socialism. An interesting instance of this was seen in the long strike at Carrara. The marble workers were always in the past a restless

124. January 24, 1925, pp. 142-143. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Victory of the moderate section: at Labour congress. Fascist strikes. Rise in wholesale prices and cost of life. A good state finance and the menace of inter-allied debts", dated "January 10, 1925", is kept in the Einaudi archives.

community. From being anarchists and revolutionists they were converted to the Rossoni creed of Fascist corporations. A local leader, a Fascist M.P., led them in a struggle which lasted 47 days. Half a dozen of the biggest marble merchants stubbornly refused to yield. In the end Fascist corporations were driven to proclaim a general strike in the Carrara district, extending to public services - truly a singular outcome for the adherents of a party whose advent to power was favoured by promises that public service strikes would be finally exterminated. The end of the strike was not a success; the men were compelled to return to work with a 10 per cent. increase of the wages for a minority only of the workers, excluding the hardest worked section *i.e.*, the hewers.

The uneasiness felt in the labour world is partly traceable to the increasing cost of living. Wholesale prices, on the basis 1913 equal 100, have risen as follows, according to the Milan Chamber of Commerce index number:

	Average for the Year				Average for the Month of December, 1924
	1921	1922	1923	1924	
Vegetable food	516.8	555.2	533.9	573.3	573.7
Animal "	649.4	587.4	566.8	618.4	646.7
Textiles	480.1	583.1	673.3	709.4	718.4
Chemicals	440.1	437.2	421.6	460.1	537.5
Minerals and metals	514.4	524.1	547.7	549.5	569.1
Building materials	570.3	519.7	519.0	554.4	579.0
Miscellaneous vegetables	499.5	508.2	515.9	491.2	577.5
Miscellaneous manufacturing	537.5	535.8	534.6	543.0	555.9
General average	516.5	529.3	535.8	553.5	593.3
Purchasing power of the lira	19.44	18.84	18.67	18.1	16.85

After a continuous rise from year to year of the annual averages, the index for December, 1924, was the highest in the series. Never has the purchasing power of the lira been so low (16.85 per cent. on the 1913 basis) as in the past month. Below is quoted the index number (maximum and minimum monthly general average) of the cost of living for a working-class family of five (two parents and three boys) in Turin:

First Half of 1914=100

	Food	Clothing	House	Heat & Light	Miscellaneous	General Index
Monthly Minimum:						
1920-July	409.3	479.1	100	415.0	455.9	384.0
1921-July	446.3	411.4	120	354.2	537.1	404.7
1922-April	470.3	433.3	120	378.1	587.0	404.5
1923-March	480.7	436.7	120	423.1	574.4	435.8
1924-June	507.8	459.1	200	391.9	566.6	462.1
Monthly Maximum:						
1920-December ...	509.9	547.3	110	528.8	513.6	465.6
1921-December ...	536.7	447.5	120	433.5	578.3	471.0
1922-January	523.7	454.3	120	435.4	590.7	465.7
1923-December ...	504.7	470.4	200	460.0	577.3	466.7
1924-December ...	576.9	502.9	250	448.8	577.1	518.9

The monthly maximum and minimum alike are regularly growing from year to year; and the present index is at its highest level. Speculations about the origins of the rise are rife in the Press. With a Budget which closed in the financial year 1923-24 with a deficit of only 418 million lire, following a deficit of 3,029 millions in 1922-23, and an estimate of a small surplus in the current year 1924-25, and of a 178 millions surplus for the future year 1925-26; with a decrease of 1,464 million lire in the adverse trade balance in the first ten months of 1924, compared with the same period of 1923; in the face of the reimbursement made in the year 1922-23 of State debts to Brazil, Canada, Sweden, and Holland, for food and other war purchases, and the arrangements already made for the reimbursement February next of the issue of 51.6 million gold lire made in the American market, so that all external debts, always excepting the war debts to Great Britain and United States, will be wiped out; in the face of a decrease in internal State debts from 95,500 million lire on June 30, 1923, to 92,205 on November 30, 1924, and the progressive conversion of short exchequer bills into long-dated bonds, the depreciation of the lira is somewhat puzzling. The only adverse international factor is the problem of inter-Allied debts. If Great Britain and United States are serious when they talk of payments to be made by Italy, the equilibrium of the State Budget would be seriously menaced. With taxes already highly pressing on private incomes, which, on the average, are well below British and American incomes, a further increase would be perilous and almost impossible. No government would dare to propose tax increases for the sake of paying interest on the inter-Allied debts. Is it worth while for the creditor-States to upset Italian finances, and

consequently international exchanges and trade, only to achieve the dubious result of importing Italian goods at low prices?

125.

ITALY

FOREIGN TRADE. — Figures of foreign trade in 1924 and earlier years were as follow (in millions of lire, precious metals excluded):

	Imports	Exports	Excess of Imports Over Exports
1909-13	3,419	2,212	1,207
1920	26,822	11,774	15,048
1921	17,267	8,275	8,992
1922	15,765	9,302	6,463
1923	17,198	11,059	6,139
1924 (Jan. to Nov.)	16,890	12,534	4,355

Statistical methods of valuation were changed as from July 1, 1921, and the figures are therefore not exactly comparable; but they show a considerable decrease in the relative excess of imports over exports.

CROPS. — Agricultural yields were not quite so bountiful as in 1923, but were good as compared with the prewar average (in tons, 000 omitted):

	Average 1909-14	1923	1924
Wheat	4,927.3	6,119.1	4,621.2
Maize	2,568.3	2,265.9	2,662.8
Rice	486.7	520.9	556.4
Grapes	7,047.2	8,384.8	7,029.2

For the sake of comparison, it should be remembered that the population increased from 34.7 millions on June 10, 1911, to 41 millions at June 30, 1924.

125. February 14, 1925, pp. 13-14. The article, unsigned, was published in the supplement: *The Economist. Commercial history & Review of 1924*. Its attribution to Luigi Einaudi is certain from the correspondence between Einaudi and the editorial staff of *The Economist* (letter from Leonard J. Reid to Luigi Einaudi, December 4, 1924 in the Einaudi Archives).

INDUSTRY. — The silk industry, our oldest and greatest industry, continued to benefit in 1924 from an increasing crop of cocoons; 60 million kilograms were obtained, as against 56.8 in 1923, 43.5 in 1922, 42.9 in 1921, and 41.2 in 1920. Spinning is stationary, but fairly active progress has been made in weaving. Silk manufactured products were exported in the financial year 1923-4 to the extent of 488 million lire, as against imports of 137 million. In 1909-13 the average annual export was 102 million lire, while imports were 48 million.

Imports of raw cotton increased from 167,558 tons in the first eleven months of 1923 to 186,372 tons in the same period of 1924.

Compared with the average imports of 184,100 tons in 1909-13, a moderate progress is visible. Spun-goods production in the cotton years 1922-24 reached 170,000 tons, against 166,500 tons in 1911-13; manufactured goods were produced to the extent of 157,000 tons in 1922-24, against 155,000 tons in 1911-13.

Production of raw hemp gained ground in 1924; 75,000 tons were obtained, against 60,300 in 1923 and 504 in 1922. The national hemp industry works about a third of the native produce. The wool industry consumed about 40,000 tons of foreign natural wool and 25,000 tons of native wool.

Pig-iron production increased from 236,000 tons in 1923 to 300,000 tons in 1924; steel production from 1.2 to 1.4 million tons. In 1913 the figures were: Pig-iron, 427,000 tons; steel, 989,000 tons.

PRICES AND WAGES. — Professor Mortara has published his usual set of index numbers:

	Paper Issue	Paper Price of Gold	Wholesale in Paper Lire	Price in Gold Lire	Cost of Living	Wages
1913-14	100	100	100	100	100	100
1921-1 st half-year	772	460	551	120	560	540
" 2 nd "	760	455	525	115	522	520
1922-1 st "	751	389	517	133	503	515
" 2 nd "	751	430	542	126	498	505
1923-1 st "	716	401	539	134	495	480
" 2 nd "	727	442	531	120	493	476
1924-1 st "	713	443	545	123	517	474
" 2 nd "	745	444	562	127	538	480
" December	745	449	593	132	580	485

Wages, which up to the end of 1922 were kept in equilibrium with the rising cost of living, have fallen back, but the increased number of days worked, and, possibly, an increase in the number of workers per family, somewhat make up the deficit.

MONEY AND STOCKS. – The official rate of discount remained all over the year *fino* at $5\frac{1}{2}$ per cent., but private discount and stock exchange prolongation rates were much higher – up to 8 per cent. last month. The clearings at the Italian clearing houses, which totalled 52,917.4 million lire in 1914, reached 298,952.8 in 1919, 845,095.7 in 1923, and will come to about 900,000 million lire in 1924 (832.2 million lire in the first eleven-months).

Professor Bachi's index number for share prices on the basis of 100 for December, 1918, rose to 110.02 in June, 1919, falling to 56.45 in April, 1922. At the end of 1923 the figure was 85.67, and rose steadily to 114.34 in May, 1924. After a setback in June and July, the upward movement continued till 125.83 was reached at the end of November, 1924.

PUBLIC FINANCE. – New debts incurred for balancing the Budget, exclusive of foreign debts, amounted in 1918-19 to 11,800 millions, in 1920-21 to 11,224 millions, in 1921-22 to 6,232 millions, and in 1922-23 to 2,605 millions. In the financial year 1923-24, however, the internal debt diminished by 2,381 million lire, and in the second half of 1924 by 1,175 million lire.

Equilibrium in the State Budget may thus be said to have been reached, apart from questions affecting foreign debts.

126.

ITALY

NEW RESTRICTIONS ON EXCHANGE AND STOCK DEALINGS –
RISE OF QUOTATIONS – SPECULATIVE MANIA –
RUSH OF NEW ISSUES

From our Correspondent

Turin, March 4

On Saturday, February 28th, after the closing of Stock Exchanges, a Royal decree suddenly introduced new stringent regulations on speculative dealings in securities and on foreign exchange transactions. Brokers are thereby prohibited from dealing personally in foreign exchanges; they can act only as brokers, and not as jobbers. All dealings are to be registered, indicating names of buyers and sellers, price, date, details of the bills of exchange dealt with, &c. The State Institute for foreign exchanges has the right to require from all banks and exchange dealers figures of their credits in foreign exchanges, and of their debts in lire towards foreign correspondents. The Institute can require daily communications of all buying and selling transactions in foreign exchanges. The immediate cause of the decree, which savours of war legislation, is the drift of the lira towards lower gold quotations.

The average gold value of the lira for the year 1920 was 25.6 per cent. of the value; it fell to 22.2 per cent. for 1921, rose in 1922 to 24.6 per cent., but again declined to 23.8 per cent. in 1923. At the end of 1924 the percentage gold value was 22.5 per cent. At the end of January, 1925, the lira sank to 21.5 per cent. level; at the end of February to 20.9 per cent. Fears are current that too many Italian capitalists are making investments abroad.

Up to the present the emigration of capital is not noticeable so far as the average saver is concerned; it seems, indeed, to be limited to non-remittance to Italy of the proceeds of sales of Italian goods made in foreign countries. Italian business men and exporters are accumulating dollar or

126. March 14, 1925, pp. 502-503. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. New regulations on foreign exchanges and stock future dealings. Rise of quotations and speculative mania" and dated "March 2, 1925", is kept in the Einaudi archives.

sterling credits at New York, London, Zurich, &c. It is impossible to gauge the extent of the accumulation, but the Treasury evidently desires to keep an eye, on the movement.

The decree also regulates future dealings in Stock Exchange securities. No dealing in futures can be executed by brokers if the principal does not previously pay down in cash 25 per cent. of the price of the security which he intends to buy. It will not be an easy task to put this new regulation into practice, but its aim is clear. Speculation is rampant on the Italian bourses. The average Bachi's number index of the quotations of certain important variable dividend securities (basis equals 100 for December, 1918) was 64 for 1922, 77 for 1923, 110.7 for 1924. But 1924 closed with the maximum of 130, and at the end of January the figure touched 131.2. At the end of February the index will be, when calculated, several points higher still. Individual rises are much more pronounced than these averages, all the usual characteristics of Stock Exchange speculative mania being present. The order to pay down 25 per cent. of the purchase price aims at eliminating from the markets all principals without money or credit who buy securities at random in parcels of thousands at a time in the hope of covering by sales at rising prices. The speculative mania was extending so alarmingly that the Committee of the Milan Stock Exchange was obliged to create a ticket of admission, a thing unheard of in Italy, in the hope of diminishing the crowd. Increasing stringency in the carry-over rates was scarcely effective. Whereas the official rate of discount was not changed from the old 5.50 per cent., carry-over rates, which were 6.50 to 7 per cent. in January, 1924, were put up to 7.50-8.50 per cent. in January and February, 1925; but the hopes of great gains on price differences ran so high that speculators disregarded the interest charges. Second-rate operators are known to have paid prolongation rates of 5 to 10 per cent. monthly. A restriction of credit against these extravagances was long overdue.

The speculative mania is abetted by the continuous increases of capital by old companies and flotation of new securities. The capital issued by joint-stock companies increased in 1922 by 1,044 millions lire, in 1923 by 2,128 millions lire, in 1924 by 4,839.5 millions lire, and in January, 1925, by 627 millions lire. Like a snowball, increases are doubling themselves every year. The depreciation of the lira goes far to explain this movement. Circulating capital is needed in greater quantity; machines and buildings are most costly; old capital ought to be re-valued in order to bring it in harmony with modern values. Re-valuation takes the limping form of watering, *i.e.*, introduction of new capital in depreciated lire side by side with old capital in old gold lire. Dividends, which would have had

an ominous appearance of 30 or 50 per cent. on gold capital, are thus reduced to the more manageable and democratic percentages of 10 per cent. on watered capital. No wonder that in such a transient and uncertain market speculation is rampant. It will be interesting to observe if the 25 per cent. decree will be effective in persuading operators to be more prudent. In the meantime, all bourse operators are alarmed, for they say that it is impossible to make principals anticipate payment of 25 per cent. of a sum due only on the settlement day at the end of the month. Stock Exchanges were, therefore, in the first two days of the new *régime* almost idle, as operators are on strike against the new regulations, in the hope that Government may be induced to change the new regulations, which they say is unworkable.

127.

ITALY

STOCK EXCHANGE LEGISLATION — RISE IN THE RATE OF DISCOUNT —
REACTION IN SECURITY PRICES

From our Correspondent

Turin, March 31

The Royal Decree of February 28th, to which I called attention in my last letter, had an eventful sequel in March. No other economic problem was talked of in financial circles; newspapers were full of rumours on new drastic impending legislation, and a very interesting debate took place in the Senate. The market took no notice at the section of the Decree which re-established supervision on foreign exchange dealings; but was greatly alarmed at the section four which prohibited brokers from accepting orders of purchase from principals who did not pay in cash 25 per cent. of the price of securities bought for the end of month settlement. They said that the regulation made Stock Exchange dealings almost impossible, because nobody would be willing to pay in cash a big percentage of the pur-

127. April 4, 1925, pp. 657-658. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. The decrees on stock exchange dealings and the limitation of brokers. Rise in the rate of discount. Reaction in securities prices", dated "Turin, March 31, 1925", is kept in the Einaudi archives.

chase price of a security which might be sold before the end of the month's settlement. There was, therefore, a rush of forced sales on the part of disconcerted bulls. Prices went tumbling down by hundreds of points in a few days. The Finance Minister felt obliged to revise the Decree, and a Treasury minute ordained that for purchases to be settled at the end of March and April (our Stock Exchange settlements are monthly) the percentage to be paid down be reduced to 5 per cent., to 10 per cent. for May settlement, and to 15 per cent. for June settlement, so that only for July settlements will the percentage be the normal one of 25 per cent.

But a more profound impression was exercised on the Stock Exchanges by a new royal legislative Decree of March 7th, followed by a Ministerial Decree of the same day, which fixed the maximum number of the exchange and securities brokers (*agenti di cambio*) at the following figures: - 60 at Milan, 45 at Genoa, 39 at Turin and Rome, 30 at Trieste, 15 at Naples, 5 at Florence, 4 at Bologna, and 3 at Palermo Bourses. Banks were excluded from the parquet, or from the privilege of open dealing at high voice (*alla grida*). All brokers were forbidden to deal in securities on their own account, which was somewhat of a novelty in Italy, where the distinction between brokers and jobbers is practically non-existent. The guarantee (*cauzione*) to be deposited by brokers was to be suddenly raised from 50,000 and 100,000 lire to 1,000,000 lire for the brokers in the Milan and Genoa Bourses, to 800,000 for Rome, Turin, and Trieste, 500,000 lire for Naples, Florence, Bologna, and Palermo. All present brokers' charges were declared void as from June 1, 1925. The Government will select a third of the number assigned to each Bourse: 20 for Milan, 15 for Genoa, and so on. The first third selected by the Government's patronage will select the second third, and the two thirds will co-opt the remainder. All brokers will henceforth be united in a "Corporation", which will have a charter, and be responsible, up to a certain amount, for the obligations of its several members.

The Decree, which was copied almost verbatim from the Statutes of the *Compagnie syndicale des agents de change* of Paris, produced consternation in the brokers' circles. After long-drawn negotiations another Treasury Minute was published, which assured existing brokers that due regard will be had to acquired rights. The promise was not explicit; but it seemed to respect the principle of the life-tenure of present brokers' offices.

On March 7, 1925, another Ministerial Decree increased the official rate of discount from 5.5 to 6 per cent., and the rate of interest on advances on securities from 5.5 to 6.5 per cent. The Minister of Finance was evi-

dently of the opinion that speculation was rife in the Italian Bourses, which was very much akin to a flight from the lira toward goods and securities representing goods, and he endeavoured to check this mania by 1) making speculation difficult with the 25 per cent. cash payments, 2) reducing the number of brokers, 3) increasing the price of money for speculative dealings. Perhaps this last remedy was the only useful one. Money was certainly too cheap, and its cheapness worked against the revaluation of the lira, which last the Minister declared to be his aim during the Senate debates. But it is too soon to say if the dear money will reduce the paper issue and the level of internal prices and better the foreign exchange level.

128.

ITALY

STOCK EXCHANGE TROUBLES – SUSPENSION OF NEW REGULATIONS –
REVIVAL OF SPECULATION – THE PROBLEM OF REVALUATION –
UNFAVOURABLE RECEPTION OF THE CHURCHILL BUDGET

From our Correspondent

Turin, May 4

All's well that ends well; but great was the turmoil in the Italian Stock Exchanges, almost to the eve of the carry-over day, April 23rd. The Bachi's index number of industrial, commercial, and joint-stock bank shares, which had reached 146 at the end of February (basis 100=December, 1918), receded to 134 at the end of March. The most buoyant groups went down drastically: cotton securities from 623.4 to 559.6, artificial silk and silk-waste from 673.8 to 581.0, land and houses from 316.2 to 276.2.

The liquidation of early April caused even more anxiety and almost panic. In the first days of April orders of sale at the best (or worst) prices obtainable were pouring into the market. The Government felt obliged to close the Bourses from April 9th to 13th. In the meantime, as operators

128. May 9, 1925, pp. 915-916. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Stock exchange events. Suspension of new regulations. Revival of speculation. The problem of the revaluation. Unfavourable reception of the Churchill budget news", dated "May 4, 1925", is kept in the Einaudi archives.

were complaining of the one-sided Section 4 of the Decree of February 28th, which obliged buyers to pay in cash 25 per cent. of the prices of securities bought for the end-of-month settlement, a new Decree of April 6th extended the 25 per cent. deposit also to speculative sales, so that a just balance should be maintained between sellers and buyers. This sort of compensation handicap on the shoulders of buyers and sellers was of no avail to restore confidence in the market. At last Premier Mussolini felt obliged to intervene. Several meetings between Ministers, permanent Treasury officials, bankers, and Stock Exchange brokers were held at Rome and Milan. Another interruption in the Bourses daily sessions took place after April 15th, and the final outcome was as follows: 1) The deposit of 25 per cent. cash by Stock Exchange operators was to be no longer compulsory. Stock Exchange committees were authorised to suspend the regulation, and all committees did in effect suspend it at once. 2) Facilities were given by banks of issue to carrying over and liquidation in the Exchange market. Money was made very easy, and the rates for carrying over were even lower than at the end of March. Against rates of 8 to 8½ per cent. for March, money was easily obtainable in the last days of April at 7 to 8 per cent., and even lower. As a consequence of the elimination of the objectionable regulations, quotations are again on the up-grade. Among the most spectacular fluctuations, one may quote the General Trieste-Venice Assurance shares, which from 18,000 lire fell to 10,000, to rise again to 14,500; Fiat from 550 to 450 and again to 520; Chatillon (artificial silk) from 500 to 330, and up to 400; Banca Commerciale Italiana from 1,650 to 1,350, and again to 1,550; and so on.

Recent events have taught the lesson that the stabilisation or restoration of the lira is not to be gained by direct intervention in the money market. The Stock Exchange regulations had the well-meaning aim of checking the speculative mania, of decreasing the demand for paper money, and of facilitating the reduction of paper-issues. The sensitiveness of the market proved stronger; the crisis alarmed everyone; captains of industry feared difficulties in raising much-needed capital; and the Government was obliged to authorise banks of issue to furnish funds to the market. Total paper issues increased, therefore, from 19,870.6 millions lire at the end of February to 19,993.4 millions lire at the end of March, notwithstanding that the issue on account of the Treasury and other public bodies had decreased by 548.3 million lire. Perhaps the end of April figures, when published, will show a further increase in the total paper issue. On the surface, a failure of a well-aimed enterprise. At the meeting, held on April 22nd, of the representatives of Joint Stock Companies, the

president, Signor Alberto Pirelli, echoed the almost unanimous voice of the industrial classes when he said that those classes favour the Government policy of opposing every further devaluation of the lira, without, however, desiring a rapid appreciation. They prefer stabilisation; not, however, at any point arbitrarily fixed. Signor Pirelli hopes that the point can be varied from time to time, with the utmost caution, on the upward grade, until a point will be discovered which could be the final one, and at which the lira can be legally stabilised.

The Churchill Budget has been read in Italy with no small misgiving. Motor-cars, natural and artificial silk are among the greatest assets in the Italian balance of international trade; in the first two months of 1925 the total number of motor-cars exported amounted to 3,486, against 2,454 in the corresponding periods of 1924; the exports of raw silk rose from 840.6 tons in the first two months of 1924 to 1,046.3 in the same period of 1925; tissues of pure silk from 105,256 to 122,921 kilograms; tissues mixed with silk from 130,742 to 183,567 kilograms; artificial silk and waste from 738,126 to 1,094,631 kilograms. In industrial circles there is a growing dissatisfaction with the sudden obstacle presented to Italian exports in the hitherto free British market. Statistics are being circulated which show that Italy had gained supremacy in Europe in the artificial silk industry with 12,000 tons produced in 1924, against 4,600 in 1923; Germany was a good second with 9,000 tons, and France and Great Britain went at the third place with 6,300 tons. Italy hopes that in 1925 she will surpass even the United States, which in 1924 produced 22,000 tons. A natural resentment is felt against a closure which menaces the future of the new avenue which enterprise and hard labour has disclosed to Italy. Also the natural silk industry of Como is alarmed. The number of power-looms increased in Italy from 12,000 in 1917 to 19,000 in 1925, to which may be added 5,000 hand-looms. Of the 1,000 millions lire worth of silk tissues made in Italy, roughly 350 millions lire used to go into Great Britain. It is truly unfortunate that such a cause of friction should arise between Italy and Great Britain, and it is to be hoped that Free Traders can reduce and postpone the menace to our industries.

129.

ITALY

STOCK EXCHANGE CRISIS OVER – WEAKNESS OF THE LIRA –
 INTER-ALLIED DEBTS – NEW SUPER-TAX –
 THE INCREASE OF TAXATION SINCE THE WAR –
 COMPARATIVE BURDENS OF TAXATIONS

From our Correspondent

Turin, May 31

Stock Exchange excitement entirely subsided during May. The last occasion for trouble was removed when the guarantee (*cauzione*) to be deposited by brokers was reduced by one-half. Securities are rising from the bottom prices reached in April, but it is as yet too soon to say if the recovery movement is to be short-lived or permanent. The rise of the foreign exchanges is depressing quotations of State securities, and pushing up those of variable dividend shares. The rise, as such, is violently resented in Italy, where the opinion is generally held that we do not deserve to follow the French franc in its downward course. Why the price of dollar, which averaged 21.83 lire in 1923, 22.95 in the first half of 1924, and 23.015 in the second half, should rise to the present 25 lire is not clear.

The pressure exercised by the United States for a settlement of our debt is accounted among the chief causes of the bad plight of the lira. Opinions of prominent American politicians, such as Senator Borah, do not take into account the true Italian case. Senator Borah seems to think that French and Italian taxpayers are very lightly taxed and able to bear new charges towards repayment of inter-Allied debts. Italian taxpayers are in a very different mood. To-day is the last day on which Italian taxpayers are called upon, for the first time in the history of united Italy, to hand to the revenue authorities forms for the declaration of income. Income-taxes hitherto were of the British income-tax type: scheduled, with deduction at source taxation, and a proportional constant rate. On the top of

129. June 13, 1925, pp. 1188-1189. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Stock exchange crisis over. Foreign exchanges weak. The inter-allied debts problem. New super-tax. The increase of taxation after the war. Comparative pressure of taxation", dated "Turin, May 1931, 1925", is kept in the Einaudi archives.

these income-taxes, taxpayers will this present year begin to pay a progressive, personal super-tax on total income. The taxation of incomes in Italy will therefore be as follows:

	Per Cent. of Income
Income from land	10
" " houses	10
" " capital (debenture interest, &c.)	24
" " industry and commerce	18
" of professional men	16
" " private employees	12
" " public employees	10
" " farmers cultivating their own land	10

All income of whatever amount, however small, from land, houses, and capital pay the above rates; other incomes pay it when they exceed 435 to 800 lire yearly (at the present rate of exchange, when they exceed 4 to 7 pounds sterling yearly). Practically, as the minimum exempted is too paltry a sum to be noticed, all incomes are subject to the above taxes. In addition, incomes from land and houses pay heavy local rates, which send the total rate up to 25 per cent of income. Incomes derived from other sources also pay local rates, but not to so great an extent.

On the top of the universal, proportional taxation sketched above there comes the new super-tax (*complementare*), which falls on the total of all incomes received by the taxpayer, his wife, and his sons of less than 21 years of age. The taxable income is the total of various incomes, less other taxes paid, national and local, insurance premiums, interest on debts, and less a deduction of 1-20th of the net income for each dependent person (excluding himself and wife). The 1-20th deduction cannot exceed 3,000 lire. The rate of taxation is as follows (the figures in parentheses are the equivalent in pounds sterling at the present rate of exchange, 120 = £. st. 1):

	Per Cent. of Income
On taxable income of 3,000 lire (£st. 25)	1
" " 5,000 lire (£st. 42)	1.22
" " 10,000 lire (£st. 83)	1.61
" " 20,000 lire (£st. 166)	2.12
" " 50,000 lire (£st. 416)	3.05
" " 100,000 lire (£st. 833)	4.01
" " 200,000 lire (£st. 1,666)	5.28
" " 500,000 lire (£st. 4,166)	7.60
" " 1,000,000 lire (£st. 8,333)	10

All the rates are to be increased by 20 per cent., as the municipal authorities have the right to superimpose a fifth of the State tax for their

own benefit. If we add to the old universal tax on incomes, which takes from 5 to 24 per cent. of all incomes, the new super-tax, we get at a very nice total, especially on incomes below £ 166 sterling, which English and Americans usually exempt entirely from direct income taxation. As the great bulk of Italian incomes are under the £ 166 sterling limit, it is easy to compare the pressure of income-taxes between our countries.

As to incident of total taxation (income, stamp, and consumption taxes), it is very difficult to make exact calculations. The effective yield of State taxes was as follows:

(In Millions of Lire)				
Taxes on Incomes and Capital				
	Ordinary Taxes	Extraordinary Taxes (War Profits, &c.)	Taxes on Consumption	Taxes on Transfer of Wealth (Stamps and Registration)
1913-14	541	—	1,168	294
1914-15	592	—	1,035	299
1915-16	659	62	1,344	338
1916-17	695	363	1,769	448
1917-18	751	781	2,274	589
1918-19	852	1,214	2,821	814
1919-20	986	1,348	3,926	1,298
1920-21	1,269	2,726	5,534	1,932
1921-22	2,124	2,780	6,800	2,290
1922-23	2,473	1,861	7,481	2,410
1923-24	3,624	1,938	7,592	2,719

Ordinary taxes on incomes have increased sevenfold; taxes on consumption also have been multiplied almost by seven, while taxes on transfer of wealth are to-day more than nine times as high as in 1913-1914. The fall of the lira goes a long way toward explaining the rise in the yield, but something remains which is a true increase of final charges.

Total taxation (State and local), apart from the yield of public services, and the cost of goods sold by State monopolies, was calculated in pre-war days at about 2,500 million lire on a national income of about 20,000 lire. This is the most accurate estimate which I have seen. The rate of taxation in Italy in 1913-14 was therefore 12.50 per cent. What is the present rate? Calculating at 16,000 million lire the total State taxes (apart from the yield of public services, &c.), and at 4,000 million lire, the total local (municipal and provincial) taxes and rates, we get at a total taxation of about 20,000 million lire. A part of these 20,000 million lire are "extraordinary" taxes, but for practical purposes they are paid out of annual income; and they will be substituted by permanent taxation of some sort or other. What is the national income at present? In a time of fluctuating money it is almost impossible to arrive at an exact estimate, but I think that Professor Mortara's figure of 90,000 to 100,000 million

lire is as exact and scientific an estimate as can be made. On that basis the present rate of taxation (State and local) would work out at from 20 to 22.50 per cent. of national income. In a country where the average individual income is, always on the same basis, from 2,250 to 2,500 lire (from £ 19 to £ 21 sterling), a taxation burden of 20 to 22.50 per cent. (four-fifths State and one-fifth local) is indeed very high. An increase from 12.50 per cent. in pre-war days to 20-22.50 per cent. to-day is the utmost increase bearable by the average taxpayer. It seems very unlikely that even keen-eyed Senator Borah can discover revenue devices which our Finance Ministers have not already fully utilised. Perhaps super-tax rates on incomes above £ 2,000 sterling could be increased; but I fear that in a country of low average incomes, such as Italy, increasing of super-tax rates will not bring a farthing toward repayment of American debt, and only favour the flight of new savings away from the lira. The only asset known at present with which Italy – apart from the moral, political, economic aspects of the inter-Allied debts problem, which the *Economist* has frequently discussed – could pay something to British and American Treasury is the expectation of German Reparations. Unlike their French colleagues, Italian Finance Ministers have never made much capital out of German Reparations in balancing their Budget; and so it would not be very difficult to come to an understanding if both parties were persuaded to regard them as the only practical transferable asset.

130.

ITALY

THE FOREIGN EXCHANGES SCARE –
 EXTRAORDINARY PAYMENTS FOR WHEAT – PAPER ISSUES STATIONARY –
 THE INTER-ALLIED DEBT PROBLEM

From our Correspondent

Turin, July 4

The new turmoil has apparently spent itself. The past month was characterised by a continuous rise in the foreign exchanges rates, which even-

130. July 18, 1925, pp. 107-108. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. The foreign exchanges scare. Extraordinary payments for wheat. Late purchases of exchanges. Paper issues stationary. The importance of the inter-allied debt problem", dated "Turin, July 4, 1925", is kept in the Einaudi archives.

tually took a rather alarming turn. The financial world has been since February last in an excitable mood. I have endeavoured to describe in past letters the origin and the phases of the crisis so far as relates to bourses, quotations of joint-stock securities, losses of operators, and so on. Operators, when their mind was concentrated on the slowing-down of prices of variable dividends securities, were not alive to the undercurrents in the foreign exchanges. Meanwhile, little by little there was originating in the exchange market a very delicate situation.

In the year 1924 imports were exceptionally heavy: - 19,388.4 millions lire against exports of 14,318.3 millions lire. The adverse movement was accentuated in the first four months of the present year: - 9,088.3 million lire on the side of imports and 5,346.1 on the side of exports. The excess of imports over exports, which was 5,070.1 million lire in 1924, reached 3,742.2 million lire for the four months January to April, 1925. The most important cause of the adverse balance was the low wheat yield of the past agricultural year. In the four months from January to April, 1925, we were obliged to import 1,198,312 tons of wheat, against 582,865 tons in the corresponding months of the preceding year. The exceptional rise in the adverse commercial balance was not compensated by invisible exports. The number of foreign visitors in Italy is, indeed, increasing enormously, especially since April, in virtue of the jubilee year of the Roman Catholic Church. But we are feeling the pinch of diminished remittances of emigrants from America. In the first place, the quota of Italians admitted in the United States is ridiculously low; and, in the second place, emigrants already living in America are urged to deposit their savings in local savings banks, so that remittances to Italy may be diminished.

Against the increased need of foreign exchanges, importers were slow to cover themselves. When in the period January to April the price of the pound sterling oscillated between 115 and 117 lire, importers postponed covering, in the hope that the price to be paid might diminish. They preferred to borrow exchanges from month to month. Exchange borrowings were repeatedly prolonged, until early in June importers, seeing that foreign exchanges, instead of receding, continued to rise, suddenly took alarm. Then came a stampede, when, fearing still higher increases, everyone began to cover.

A second cause of the rise was the conduct of certain exporters, who, seeing sterling and dollars go up, preferred not to sell bills received in payment of goods sold abroad, in the hope of a more profitable sale later. The general public came third. When the pound reached 130 lire wild fancies spread: that the lira would be de-valued; that the Government planned the

introduction of a new gold-lira, which the public assumed would mean outright cancelling of the present paper-lira. The beginning of official Washington conversations on the inter-Allied debt problems and the publication of the huge bill of \$ 2,133 millions presented by America instantly persuaded some people that we would never be able to pay, that the State was bound to bankruptcy, and that the lira would follow the German mark. From Saturday, June 27th, to Wednesday, July 1st, we lived days of true panic. People began to sell Consols at every price: old 3.50 per cent. Consols were to be had for 58 lire net, new 5 per cent. for 80, Treasury seven and nine-year bonds were offered for 80 lire, a price which in certain cases of bonds falling due in 1928 signified an investment at 12 or 13 per cent. July 1st was the blackest day, when Consols and Treasury bonds found no buyers, and the exchange on London ran almost to 150 lire, and on New York to 30.60. The reaction from the worst was sudden. Signor Mussolini promptly issued a declaration that the Government had not even thought of a gold-lira; and the Washington conversations were suspended until the Italian delegates could bring back from Italy facts and figures illustrating the effective ability of Italy to pay.

At this point reaction was imminent. Foreign exchanges receded; and at the time of writing (July 4th) the pound sterling is to be had for 133 lire and dollar for 28; old 3.50 per cent. Consols are up to 67.40; new 5 per cent. to 86.35; and seven and nine-year Treasury bonds to 91 lire. People are wondering how they were scared out of their securities at the level of 58 and 80 lire respectively.

Figures of total paper issues are as follows: - December 31, 1923, 19,674.3 million lire; June 30, 1924, 19,952.8. December 31, 1924, 20,514.2; May 31, 1925, 19,843.5. As long as the Treasury and banks of issue do not increase the quantity of paper issued, how can paper depreciate? In an editorial note, your newspaper wondered why Italy delayed, notwithstanding our good financial situation, to stabilise the lira at a fixed gold exchange. It is extensively felt in Italian financial circles that the problem of the stabilisation of the lira cannot be put on the practical stage until the problem of inter-Allied debt is settled. Very small sums can be paid by our taxpayers to the service of external debt. But Italy must know exactly where she stands before embarking on new monetary schemes.

131.

ITALY

RESIGNATION OF SIGNOR DE STEFANI — PUBLIC FINANCE —
STOCK MARKETS — DUTY ON CEREALS — WHOLESALE PRICES*From our Correspondent*

Turin, July 27

Since my last letter of July 4th the Minister of Finance, Signor Alberto De Stefani, has resigned. He had been Minister from October, 1922, and his work in these 32 months will be long remembered. During his tenure of office the Italian Budget position was turned from a huge deficit to a small surplus. The last year of surplus was 1910-1911, when revenue exceeded expenditure by 11.6 million lire. The subsequent story is best told by the following figures:

Financial Years	Deficits in Millions of Lire
Lybian War:	
1911-12	- 111.8
1912-13	- 257.8
1913-14	- 163.9
European War:	
1914-15	- 2,835.4
1915-16	- 6,891.5
1916-17	- 12,250.2
1917-18	- 17,766.1
1918-19	- 22,775.7
War liquidation:	
1919-20	- 7,885.9
1920-21	- 17,409.0
1921-22	- 15,760.4
Return to peace budgets:	
1922-23	- 3,028.8
1923-24	- 418.4
1924-25	+ 209.0

The 1922-23 Budget was begun by Signor De Stefani's predecessors; and successive Governments, from the suppression of the bread subsidy

131. August 15, 1925, pp. 270-271. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the author declares to be the same as the previous article (July 18, 1925).

by Signor Giolitti onward, may justly claim a part of the credit for the improvement. Signor De Stefani was a strong opponent of new expenditure, and, so far as he could go, worked against Protection. On leaving office he was able to state that the Budget for 1924-1925 was closed with 209 million lire surplus.

His successor, Senator Volpi, does not come, as did Signor De Stefani, from the ranks of university professors, but from business circles. He was a director of Banca Commerciale Italiana, president of the Società Adriatica l'Elettricità, a much-esteemed practical administrator, and until recently Governor of the Lybian Colony.

No great changes were announced by Signor Volpi, but he is endeavouring to keep himself in close touch with banking and business circles. Signor De Stefani was rather drastic in his handling of Stock Exchange machinery. In a well-meant endeavour to revalue the lira, he shook financial markets; the lira, instead of improving followed the slump in securities, and fell from 116 to the pound sterling to 133 lire in the month of July. Money became dear, and securities, especially speculative issues, went from bad to worse. July 23rd was a new black day. Banca Commerciale shares, which closed at 1,530 in June - and had already lost some 200 points from the highest level touched in February - went down to 1,390; Snia Viscosa, after rising as high as 450, were at the end of June at 334, and continued to be had at 240 on July 23rd. Small operators had to sell at almost any price, as it was rumoured that money would be extremely scarce at the settlement. However, as the market was almost cleaned, settlement was easy, and markets recovered.

Closing prices were generally higher by 20 to 30 points than the bottom of July 23rd. The first fiscal act of the new Minister was favourably received by the Stock Exchanges - *i.e.*, the abolition of the tax of 15 per cent. on dividends on bearer securities. The tax was originated in 1920 as a means to induce security holders to inscribe them in the books of companies. Bearer securities were always in Italy a great stumbling-block against taxes on total income. From the business point of view, the suppression of the tax is favourable to the easy sale and marketing of bearer securities. Signor Volpi also proposed to reinstate the Customs duty on wheat and other cereals at the pre-war rate of 75 lire per ton for wheat, 115 lire for wheat flour, 13 lire for corn, 31.50 for corn-flour, &c. The purpose of the duty is to promote wheat production and diminish the need for importing wheat from foreign countries. A great pro-wheat campaign was initiated recently by Signor Mussolini, and experts were appointed to suggest means to improve technical methods of growing cereals.

Bachi's index number has risen by 16.7 per cent. On the 1913 basis the general index was 682.6, on the 1901-1905 basis 860.1. There continues, notwithstanding this rise, a lag between home and external prices. If we multiply the index 682.6 for June by 0.19 which is the present gold value of the lira, we get internal prices of 130, against 160 in the United States, Great Britain, Netherlands, and other gold countries. Living is cheaper in Italy than in gold countries; and that fact is not the least obstacle against a speedy return to a gold system.

132.

ITALY

THE CAMPAIGN OF THE LIRA – FUTURE POLICY –
SLUMP IN STOCK EXCHANGES – PRICES – WAGES AND COST OF LIVING

From our Correspondent

Turin, September 26

The months of August and September have seen in full swing the so-called "campaign of the lira", with which Signor Volpi successfully lowered the exchange to 115 lire to the £, and maintained it between 115 and 120 lire. The phases of the campaign seem to have been as follows: 1) Italian Treasury agents buying up all disposable accumulation of lire existing in foreign centres, especially at New York, and utilising to this end a part of the American credits; 2) foreign speculative sellers of lire scared out of their bearer position and forced to cover, when it appeared that the usual accommodation of lire for prolonging the selling operation were not forthcoming; 3) after the rate of discount was raised to 7 per cent., money went every day more dear, banks were instructed to restrict credits to those customers who were known to have deposits in pounds sterling or dollars in foreign places. With a minimum of effort, speculative sellers of lire were thus obliged to cover, and prospective Italian holders of foreign money obliged to sell in order to finance their new acquisition of raw materials, coal, &c. Both these movements operated in favour of the lira. 4) In

132. October 10, 1925, pp. 578-579. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

the days of the flight from the lira, Italian industry and trade had bought enormous quantities of raw materials and half-finished goods, well in anticipation of current needs. Prices mattered not, in face of the feared collapse of the lira. When exchanges bettered, industry found herself loaded with immense stocks, partly paid for, and it seems that at present we are consuming these stocks, without necessity for replenishment, or not at the same rate. This produces an easing of the market situation, very much in favour of the lira.

If the betterment of the foreign exchanges is a first step toward stabilisation, what will be the rate of stabilisation has never been officially stated. It is doubtful if a definite policy has been settled. Until negotiations about inter-Allied debts are definitely closed, it is not likely that a new parity of the lira will be fixed.

Signor Zuccoli, director of the Banque Franco-Italienne pour l'Amérique du Sud, advocates a sort of gold exchange system, with the present paper-lira remaining for internal use and a Caisse de Conversion on the Argentine model, which should be obliged to give one pound sterling for every 100 or 120 lire and, respectively, to give 100 or 120 for every pound sterling offered to it.

Whichever we prefer, stabilisation at a new parity, or return to the old parity, one common effect of both is already making itself felt—namely, scarcity of money. We are at present in much the same plight as Great Britain after the adoption of the Cunliffe Report, as Germany after the collapse of the paper-mark and the adoption of the renten-mark, as Czecho-Slovakia when Rašín attempted the valorisation of the crown. We have little unemployment, industry is busy, but the stock markets are going from bad to worse. It is clear to-day that the De Stefani decrees of which I wrote you were but the forerunners of a period of dear money, which is playing havoc among operators. A few figures may suffice to give an idea of the slump after the maximum prices reached in February, 1925. (See table at p. 356).

The truth is that industrial development has been more rapid than the increase of national savings; the new or increased capital, net, of the joint stock companies was: In 1922, 1,045 million lire; in 1923, 2,128 million lire, in 1924, 4,839 million lire; and in the first six months of 1925, 5,152 million lire. In all these years the lira was not depreciating, the average exchange rate being between 20 and 25 gold centimes to the lira. If we add to the demands of new saving by joint stock companies, the enormous demands by private companies and individual firms, building and agricul-

Denomination of Share	Maximum Prices, February, 1925	Settlement Prices, July, 1925	Current Prices, September, 1924-25
Bank of Italy	2110	1690	1600
Banca Commerciale	1770	1438	1380
Credito Italiano	1185	870	840
Navigazione Generale Italiana (shipping)	890	741	650
Cosulich (shipping)	530	315	270
Cotonificio Turati (cotton)	1235	780	800
Snia (artificial silk)	530	265	270
Cascami seta (silk waste)	2400	1800	1690
Sugar refining Ligure-lombard Co.	918	600	640
Beni stabili (House property, Rome)	1285	803	675
Fiat (motor)	617	497	475
Edison (electricity)	910	780	680

tural requirements, it was calculated that the total savings required amounted to about 21,000 million lire annually, against an offer of new savings of about 15,000 million lire. We are bound, therefore, to reduce the rate of progress, and an outward sign of the situation is the lowered quotations of shares in the stock exchanges. It is commonly felt that at present many Italian shares are truly tempting, and that foreign capital could, in due time, reap good profits if it came to Italy. Reports of interest taken by foreign capital in the Snia (artificial silk) and Sip (electricity) companies are current.

The lowering of exchanges should have had a favourable influence on the level of prices. Instead of that, indexes of wholesale prices mark continuous increases: Bachi's number index (basis 1913) was 562 for the average of the year 1922, 575 for 1923, 584 for 1924. In December, 1924, it was 640; in January, 1925, 657; in February, 660; in March, 659; in April, 658; in May, 660; in June, 692; in July, 707; in August, 731. Perhaps there is operating an increasing equalisation of internal and external prices. The average index number of 584 for 1924 corresponded, when the paper lira was valued at 23 gold centimes, to a gold number index of 134; whereas in Great Britain and the United States the index numbers were respectively 159 and 149. The August index number of 731, converted, at the exchange of 21 per cent., into a gold index number of 153, is much more similar to the current indexes in the gold countries. Retail prices are slower to move. The usual figures for a working-class family of five of Turin are as follows (basis first six months of 1914):

	Food	Clothing	Housing	Light & Heat	Miscellaneous	Total
July, 1920	409	479	100	415	456	384
December, 1920	510	547	110	529	514	466
" 1921	537	447	120	433	578	471
" 1922	517	437	120	416	576	457
" 1923	505	470	200	460	577	467
" 1924	577	503	250	449	577	518
June, 1925	602	532	250	384	644	541
July, 1925	610	544	312	384	642	555
August, 1925	618	554	312	389	654	562

There has been much talk of raising wages in relation to the increase in the cost of living, and various arrangements are being made. Opinions are at variance as to whether wages are below the pre-war standard, taking into account the intermediate variations in the value of money.

133.

ITALY

DEBT MISSION TO AMERICA – HOPES OF FINANCIAL CIRCLES – THE ITALIAN LIRA AND FRENCH FRANC

From our Correspondent

Turin, October 29

On October 22nd the Italian Mission for the settlement of the debt with the United States sailed from Naples. Among the members of the Mission are some of the very best names in the financial world, Signor Volpi, the Finance Minister, and the able organiser of great electrical enterprises and director of banks; Signor Pirelli, the son and partner of the founder of a world-renowned rubber manufacturing firm; Signor Alberti, a student of economic questions and a responsible banker; and as technical experts Professors Gini and Cantelli, both distinguished University professors. A well-digested mass of statistical evidence on the economic and financial situation of Italy has been prepared, so that the case for Italy will be fully laid before the American Commission.

133. November 7, 1925, p. 758. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Composition and task of the Italian mission to America. Hopes of financial circles and uneasiness of public opinion. Italian lira and French franc", dated "Turin, October 29, 1925", is kept in the Einaudi archives.

Financial circles and stock exchanges (which, by the way, have recovered from the extreme depression of the end of September and the first days of October) are welcoming the attempt at a settlement, and set on it great hopes. They see that the payment of big sums on the score of inter-allied debts will be a source of recurrent difficulties; but, in the characteristic mental attitude of men of affairs, they say, better a bad certain bargain than a perpetual uncertainty hanging over us. Until uncertainty is dispelled, no real progress can be made. Financial circles, moreover, hope that the settlement will mean the lifting of the embargo on issues by Italian public corporations and joint-stock companies in the United States. As one of the greatest obstacles to payments is difficulty of remittance, it is hoped that Americans will re-invest the sums received from the Italian Treasury in Italian industrial concerns, becoming interested as shareholders, partners, or creditors in the property of Italian agriculture and industry.

That is one side of the problem; on the other hand it is observed that there is not the slightest probability that Italy can export anything for the sake of debt payment. Even supposing that taxpayers can be taxed up to a certain sum, say 20 million dollars eventually for payment to the U.S. and 20 millions for payment to Great Britain, how could such a sum, corresponding, at the present rate of exchange, to 1,000 million lire yearly, be transmitted? The balance of exports and imports worked out as follows in the first eight months of the present year (in millions of lire):

	1924	1925
Imports	12,392.7	18,099.7
Exports	8,548.0	11,383.2
Excess of imports over exports	3,844.7	6,716.5

It seems that in 1925 the excess of imports over exports, which in 1924 totalled 5,070.1 million lire, will be over 8,000 million lire. No one thinks that the invisible net credits can offset more than a part of the unfavourable commercial balance; so that in the present year Italy will be obliged to resort to foreign credits under various forms.

How that situation could be so thoroughly reversed as to create an excess of credits and the possibility of remittances to foreign countries is very difficult to say. Moreover, it will not be easy to extract from the overtaxed Italian the sums which presumably are claimed by foreign creditors. How a hard-living people can pay huge sums to rich, well-fed and well-housed Americans strikes Italians as a problem somewhat difficult of a common-sense solution. However, on these problems differences of opinion do not coincide with political parties. All parties support the Government

in the attempt to reach a solution which Italy can fulfil without too crushing a burden on her future development.

An interesting feature of the end of October has been the rupture of the chain which seemed to bind together the Italian lira and the French franc. Until recently whenever the French franc sank, the Italian lira followed it. Our experts attributed the synchronism of the two movements to arbitrage operations of French banks, and to the opinion, widely held in foreign circles, that Italian and French finances were involved in the same good or bad plight. Last summer, for the first time, the synchronism was not operative, and the last slump of the franc did not extend to the lira, which remains today at about 25 lire per dollar, or 122 per pound sterling. There is, indeed, a fundamental difference between France and Italy. We have balanced the budget, so that the Treasury is not bound to come to the market continually in search of money. We have indeed 17,954 millions lire of 3 to 12 months Exchequer bills, but they are easily renewed when they come to maturity, and cannot, therefore, be considered as a latent paper circulation. We have not, as France has, a Treasury problem. The only visible element of disquiet in our financial situation is to-day the interallied debt problem. Public opinion is growing persuaded that Great Britain and United States will not willingly take upon themselves the responsibility of up-setting an equilibrium which cost us so great a sacrifice to reach.

134.

ITALY

THE AMERICAN SETTLEMENT – THE DOLLAR SUBSCRIPTION –
TOTAL OF THE PUBLIC DEBT – STABILISATION OF THE LIRA POLICY –
LOANS ON THE U. S. MARKET – MONEY SCARCITY

From our Correspondent

Turin, November 30

On the news of the American settlement unanimous praises were bestowed in Italy on Signor Volpi and his colleagues, who carried through

134. December 19, 1925, pp. 1049-1050. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. The American settlement. The dollar subscription. Total of the public debt. Stabilisation of the lira policy: devisen politik or gold exchange system? Loans on the US market. Controversies about monetary effect of the loans", dated "Turin, November 30, 1925", is kept in the Einaudi archives.

the negotiations. As your comments on the transaction were considered in Italy a balanced judgment on the great issue, I need not further dwell on it. Public opinion thinks that a settlement will also be reached between Great Britain and Italy on a basis not much different – more favourable, however, to Italy in view of the Bonar Law offer, of the noble tradition of the British Treasury on these matters, and of the heavy charge that the service of both American and British debts will lay on the Italian taxpayer. I think, also, that the solid determination of the Italian people to honour faithfully the signature of their Government should make our remaining great creditor ready to settle the matter at a bearable basis.

When the settlement terms were published in Italy a subscription was raised in the Genoa Coal Merchants' Association, all members offering a dollar toward the payment of the American annuity. Signor Mussolini took the hint, and called for a million dollars by December 1st. There was at once an outburst of emulation cities and villages, all sections and classes, with the King at their head, offered the dollar (25 lire); people of small means united themselves in groups so as to reach \$1. Newspapers are full of names of subscribers. At the moment of writing Turin, which comes easily first in the list, has reached the figure of 15½ million lire, so that the called for 1 million dollars (25 million lire) will surely be reached and surpassed by December 1st.

As a consequence of the American settlement, we can for the first time measure the total of our public debt without adding together items not comparable between themselves. The only uncertain item is the British debt, and I will therefore suppose, for the sake of easy calculation, that its present value is not higher than the American debt viz., 435 million dollars. I hope that in the end it will be a less sum. I will suppose, also – only for the sake of comparison – that the stabilisation of the lira, which Signor Volpi said at New York is the purpose of the 100 million dollars loan issued in the U.S., will be carried through at about the present rate - *i.e.*, 24 lire to the dollar and 120 lire to the pound sterling. On that basis the total of the debt at October 31, 1925, works out as follows. (See table at p. 361).

At New York Signor Volpi said that only the 100 million dollars loan will be utilised for continuing the present policy of stabilisation. The first step will probably be that the Bank of Italy, by skilful management of the loan fund, will maintain the rate of foreign exchanges at the selected level. The second step will be the adoption of a sort of gold exchange system. Experience will tell at what precise point stable equilibrium can be reached, without laying on the Bank of Italy's shoulders an impossible task. Eventually, gold reserves could be revalued at the new rate, and, after the Belgian fashion, the increase of valuation could be utilised to wipe out from the State debt-book the figures of notes issued by banks of issue for State account.

	Italian Lire (Millions)	Pounds Sterling (Millions)
Internal Debt:		
Perpetual and long-term:		
Pre-war debts	12,482	
National loans	35,998	
Venetian 3.50% bonds	964	
25 years 4.75% bonds	1,443	
Ex-Austrian 4.36% bonds	10	
	<hr/>	
	50,897	424.1
Short-term bonds:		
Treasury 3 and 5 years bonds	2,085	
" 7 years bonds	4,000	
" 9 " "	6,101	
	<hr/>	
	12,186	101.5
Treasury bills (3, 6, 9, and 12 months)	17,939	149.6
Current accounts:		
Deposit and loans State Bank	1,045	
Social Insurance National Fund	67	
	<hr/>	
	1,112	9.3
Total internal debt	82,134	684.5
External debt:		
Morgan loan	2,500	
American	10,875	
British (?)	10,875	
Total external debt	24,250	202
Total	106,384	886.5
States notes	2,100	17.5
Bank of issue notes for State account	7,067	58.9

It may be said, therefore, that the public debt, internal and external, is about £ 900 millions sterling, a great sum for Italy, but one which the State Budget, at the present level of foreign exchanges, internal prices, and national income, can bear. The American settlement, and the issue of the State loan of 100 million dollars in New York, has been received in financial circles as a promise of growing financial relations between the American money market and Italian industry. The promise is already being fulfilled, a loan of 30 millions having been raised in New York by the Public Utilities and Works Institute, while several minor loans have been negotiated on behalf of prominent groups, as the Turing Gas and Sip concerns. Shares of the Snia Company, of the Sip, and other great companies have been issued in London and New York markets. It is hoped in industrial quarters that the flow of foreign capital into Italy will have the effect of

lowering the cost and scarcity of capital, which is being increasingly felt. The official rate of discount was raised from 5.50 to 6 per cent, in February, to 7 per cent, at June 18th. The average rate of interest paid by banks on saving deposits from 3.50-4 per cent, in January, 1924, was raised to 4-4.50 in July, 1925; the prolongation rates or interest paid on advances guaranteed by State securities increased from 5.75-6 per cent. during 1924 to 6 per cent. in May, 1925, and to 7 per cent. in September last; on advances on industrial securities from 7 per cent. in the first half of 1924 interest charged increased to 7.50-7.75 in the last month of 1924 to 8 per cent. in March, 1925, to 8.75 per cent. in June, and to 9 per cent. in September. It is increasingly difficult to obtain accommodation at a rate less than 9 per cent. Everybody complains of the scarcity of money.

135.

ITALY

THE BILL ON INDUSTRIAL DISPUTES – ITS FAR-REACHING IMPORTANCE –
REFORM OF THE SENATE

From our Correspondent

Turin, December 31, 1925

By far the most notable economic event of the past month was the approval by the Chamber of Deputies of a Bill on industrial representation and disputes. The Bill is to be further examined by the Senate; but its passing into law is assured. One of the cardinal principles of the Fascist programme was indeed the elimination of industrial disputes. In fact, strikes, which were rampant in after-war years (18,887,917 days lost in industry in 1919 and 16,398,227 in 1920), had diminished to 7,772,870 lost in 1921 and 6,276,575 in the first ten months of 1922. But if the decrease of the spirit of unrest was already sensible, it is only after October, 1922, that the number of days lost became almost negligible: 309,670 in the last

135. January 9, 1926, p. 64. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. The bill on industrial disputes. Legal recognition to only one association. Compulsory contribution and compulsory arbitration for members and not members. Far-reaching importance of the bill on social and political grounds", dated "Turin, December 1925", is kept in the Einaudi archives.

two months of 1922, 295,929 in 1923, and 1,159,271 in 1924. In agriculture strikes have almost disappeared.

Fascism has always aimed at suppressing class-feuds and substituting for industrial struggles co-operation between capital and labour. The Bill approved by the House of Deputies will put on the Statute-book the principles which were hitherto the practical policy of the present Government. Only one association (*sindacato*) for every district will be thenceforth recognised as the legal representative of capital and labour; or, rather, one each for the employers and for the employees. Associations of employers must enrol employers of at least a tenth part of the employees occupied in the district; and associations of employees must enrol at least tenth part of the employees similarly occupied in the district. Associations can be organised for the municipality, the province, the region, and the State; but for every district concerned and for every trade or profession only one employers' and one employees' association can be officially recognised. Members of the liberal professions (barristers, solicitors, physicians, surgeons, architects, actuaries, &c.) can form themselves into professional associations (*collegi, ordini, &c.*), of which, according to the special law, only one can be recognised in every district. Only those employers or employees can be admitted as members of the recognised associations who have a good political record from the national point of view. This aims at excluding from membership followers of subversive political or social creeds. The president or secretary of each national or regional association or federation of associations must be approved by the Government, or by the prefect if the association or federation is a municipal or a provincial one. The president or secretary can expel members who become morally or politically unworthy. Associations between soldiers, commissioned and non-commissioned officers of the Army and Navy, judges and civil servants in the Home, Foreign Affairs, Justice and Colonies Departments are prohibited. Associations between all other public employees of the State, provinces and municipalities, although they are not prohibited, cannot be legally recognised. Associations other than the one legally recognised in each trade and district can exist *de facto*, subject to the supervision of the provincial representative of the Government (*prefetto*), but they have no voice in the discussion and decision of industrial conflicts.

Powers of the one recognised association of employers and employees are twofold: 1) To make all employers and employees, members and non-members of the association alike, pay annually a contribution to the common fund equal in the case of the former to a day's wages for every employee on the books, and similarly to a day's wages per head in the case

of employees' associations. Contributions are compulsorily levied on employees by employers, and paid into the association fund. All employers and employees pay contributions to the common fund, but only members vote. 2) In the event of an industrial dispute, relating to the interpretation of existing agreements, or to the modification of the same, or to new agreements as to wages, hours of labour, &c., the dispute must compulsorily be referred to the Courts of Appeal, of which there are sixteen in Italy. Special sections of the Courts of Appeal will be formed, on which will sit three magistrates and two assessors selected by the president of the Court from a list of experts in the various branches of industry, trade and professions.

The original Bill made resort to the Court compulsory only in the case of disputes concerning agriculture and public services. In the House of Deputies an interesting debate arose between representatives of Fascist corporations and agriculturists, who advocated immediate extension of compulsory arbitration to industry. After the speech from Signor Mussolini, industrialists yielded, and the principle of universal compulsory arbitration was voted. As a consequence, strikes and lock-outs were vetoed, and offending employers are to be fined 10,000 to 100,000 lire, and offending employees 100 to 1,000 lire each. Verdicts of the Courts of Appeal are binding, not only on members of the associations concerned, but also on non-members, employers and employed in the same industry and district. Employers and employees refusing to accept the verdict of the magistrates are liable to imprisonment from one month to one year, and to a fine from 100 to 5,000 lire.

The new legislation concerning representation of industrial classes and industrial disputes will have also very important consequences in other branches of Italian life. There has been voted by the House of Deputies a Bill for the constitution of public bodies called "Provincial National Economy Councils", which will represent in each province, agricultural, industry, trade, and banking interests. It is officially announced that, after the recess, there will be laid on the Senate table a Bill for a reform of the Upper House. Instead of being all nominated for life by the King, Senators will be partly elected from among members of the industrial, trade, professional, and labour classes. In the majority of Italian municipalities (perhaps four-fifths), where the head of the municipality (called *podestà*) is to be selected by the Government – instead of the local electors – the *podestà* is to be chosen from lists of professional, industrial, trade, and labour experts. It is highly probable also that in the minority of municipalities, in which elected councils and syndics will be maintained, the electoral right will be conferred no more on the principle of "one man one vote",

but on the principle of professional representation. It appears, therefore, that, before long, employers' and employees' legally recognised associations will be paramount, not only for the solution of industrial disputes, but also as the only source of administrative and political power. Municipal councils, provincial, national economic councils, part of the Upper House will owe their origin to trade associations.

The electoral right will rest not with all men or women catalogued in professions, industries, and trade, but probably on the legally recognised associations as such. The system of voting will be somewhat on the model of that employed in the election of the American President. But there will be this difference: the electors of the American President are a haphazard provisional collection of men, whereas in Italy only members of trade associations will select their presidents, secretaries, and councils, and these permanent bodies will in their turn be responsible for the election of municipal and provincial councils and part of the Senate. The Lower House (House of Deputies) will remain the only outcome of the old principle of one-man-one-vote representation; and clearly the principle of professional representation will be in the ascendant. From all points of view, therefore – economic, social, and political – the experiment which is beginning in Italy is bound to be watched all over the world with the utmost interest.

136.

ITALY

ECONOMIC FACTORS AND THE BOURSE – SECURITY PRICE COMPARISON – DEAR MONEY AND LACK OF CAPITAL

From our Correspondent

Turin, January 27

The topic perhaps most discussed in January was the apparent contradiction between financial and economic statistics and the Bourse situation.

136. February 6, 1926, p. 268. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Financial and economic indexes and the bourse situation. Securities' prices present and pre-war level compared. Dear money and foreign loans", dated "Turin, January 1926", is kept in the Einaudi archives.

No one who studies the admirable monthly bulletin of the Italian Treasury can fail to be struck by such a contrast. The last financial year closed at June 30, 1925, with a surplus of 417 million lire. In the first six months, from July to December, 1925, of the present financial year, we have an effective surplus of 227.6 million lire. Public internal debts, which were 93.163 million lire at June 30, 1924, 91.988 at December 31, 1924, 90.847 at June 30, 1925, are at 91.536 at December 31, 1925. The figure is lower than a year ago, and the increase of 689 million lire in the last semester is largely offset by the 1,313.8 millions lire increase in the Treasury deposits at the Bank of Italy in the same period. Foreign exchanges, which appeared to go from bad to worse from January (24.06 lire to the dollar), to July (27.42) improved very much in the second half of 1925, and the quotations of about 24.80 for the dollar and 120 for the pound sterling seems to be stabilised.

A strong dollar reserve was built up in the United States by means of the 100 million dollars loan, and, so far from exhausting it in artificial endeavours to maintain the present rate of exchange, it appears from authoritative source, that the net balance of international payments has made it possible for Italy to reimburse the previous 50 millions Morgan credit and to increase the fund at the disposal of the Treasury to a figure estimated from 150 to 175 million dollars. The adverse commercial balance from a monthly average of 976 million lire, decreased to 273 millions in the five months from July to November. Crops were good, especially wheat, whose yield of 6,560,000 tons compares very favourably with the 4,630,000 of 1924, so that imports will not be so great as in past years.

Industry is developing at a rapid pace, as can be gauged from the increase of electrical energy sold from 4.357 million ettowatt-hours in the first nine months of 1924, to 4,789 millions in the corresponding period of 1925; and from the increase of coal imports from 6,816,109 tons in 1924, to 7,862,577 tons in 1925 (eleven months figures are given for both years). Unemployment is almost over: 112,059 were wholly unemployed at November 30, 1925, against 135,785 at the same date of 1924, and 280,775 at January 31, 1924; half-timers sank to the negligible figure of 4,855 individuals. Industrial bulletins report impossibility of accepting orders which are coming, and, the first declarations hint to a general increase of dividends by the joint-stock companies.

Notwithstanding all such favourable factors, Bourses are in a desponding mood. Professor Bachi has calculated number indexes for joint-stock shares prices on the basis of 100 for December, 1918:

	Dec., 1921	April, 1924	Dec., 1924	Feb., 1925	Oct., 1925	Dec., 1925
Banks	94.2	121.3	141.6	150.1	130.9	136.7
Railways	58.4	117.8	142.8	161.0	147.4	150.8
Navigation	54.0	82.2	98.4	112.0	81.5	83.9
Cotton	125.1	307.3	453.6	623.4	447.2	489.2
Wool	118.4	287.6	447.5	503.7	371.2	400.0
Silk	153.8	396.4	620.3	673.8	526.5	637.1
Mines	53.2	111.8	141.0	155.5	124.7	136.9
Iron and steel	17.8	25.5	30.2	32.9	25.3	26.3
Engineering	32.8	25.4	30.1	34.6	25.9	26.5
Motor-cars	56.3	118.4	170.6	175.4	150.8	183.9
Electricity	68.0	107.0	140.5	163.2	133.7	136.1
Chemicals	59.0	109.5	136.3	161.8	139.7	143.3
Sugar	101.5	219.5	240.8	256.6	211.8	180.8
Land and house property	100.6	222.2	281.4	316.2	209.0	207.2
Miscellaneous	112.3	181.3	240.8	261.0	220.5	228.9
General index	63.8	100.5	130.3	146.0	116.6	122.8

As in December, 1918, security prices generally were about 25 per cent. higher than at December 31, 1913; the general indexes should be increased by 25 per cent. in order to gauge the extent of the rise over the pre-war prices. At December 31, 1921, in days of rampant Bolshevism, prices had therefore fallen even below pre-war level. The subsequent rise was in general moderate, and at present (end of January, 1926), with a general index lower than the December one, perhaps not much higher than the 116.6 figure of October last, we can say that the general average of paper prices of securities is only about 50 per cent. higher than the gold prices of 1913. Compared with a contemporaneous increase of paper price of gold in the ratio of 1 to 5, and of wholesale prices level from 1 to 6.5, the increase of the securities level from 1 to 1.5 seems strangely out of proportion. A study of the individual categories helps to explain the result. Iron and steel and engineering share prices are well below pre-war prices, being 26.3 and 26.5 per cent. of the December, 1918, level, which was, as above noted, only 25 per cent. above the pre-war level. These industries were the worst sufferers from the post-war crisis, and have as yet not recovered a market sufficient to employ in full their production capacity. The world crisis in shipping freights explains the low level of shipping shares. The bank share index is depressed by the inclusion of the depreciated Banca Italiana di Sconto securities. Chemical industries have also undergone a crisis of transformation from war to peace production. If we exclude these special categories, the general level of securities would fall, in comparison with pre-war days, from the high point of 8 or 7 to 1 for silk (natural and

artificial), to a more general level of 3 to 1 for other industries. No wild increases have, therefore, taken place in Italy which could be compared with German or Austrian speculative movements in periods of mark or crown depreciation. Italian bourses do not suffer from an exaggerated level of prices in relation to the present values of assets or to reasonable hopes of profits. A lot of securities can be bought at present with a probable net income of from 5 (land and house property) to 7 and 8 per cent. In many cases, given a prospect of stabilisation of the lira at about the present level, there are probabilities of substantial appreciation, if only the real cause of the present weakness could be eliminated. Joint-stock companies are suffering from lack of working capital. Italian industry is severely hampered by dear money. New savings are, in the first place, absorbed by the sound Treasury policy of increasing taxes so as to wipe out deficits and convert them into a surplus; and, in the second place, by the tendency of agriculturists to invest their savings in improvements to land and buildings. The necessity for new houses in urban areas has also absorbed a huge amount of capital. These requirements do not leave sufficient capital for the needs of industry. Shares are difficult to place and recent issues, it is said, have partly been left on the hands of the issuing groups.

The settlement of the American and British debts will clear the way to a useful understanding between capital exporting nations and Italy, which, from an industrial point of view, is a new country. The motor-car industry is an instance of what can be created by a man of genius and industry like the president of the Fiat Company, Signor Agnelli. Perhaps a fifth of the 500,000 inhabitants of Turin live, directly or indirectly, on the motor-car industry, which twenty-five years ago was non-existent. There is a possibility that in a few years this number will be doubled, and also that large numbers of Turinese will live on the artificial silk industry, which is expanding at a rapid rate. Enormous also is the possibility of expansion of the electrical industry, whose net work is every day extended, and is more and more closely connected under a few central holding societies, of which Signori Motta and Ponti are the very able chiefs. The present Bourse crisis is therefore a crisis of growth. The problem is to maintain the equilibrium between new savings, and the energetic will and capacity to expand which our captains of industry display.

137.

ITALY

FOREIGN TRADE. — Figures of foreign trade in 1925 and earlier years were as follow (precious metals and reparations excluded):

	In Millions of Lire		
	Imports	Exports	Excess of Imports Over Exports
1909-13	3,419	2,212	1,207
1920	26,822	11,744	15,048
1921	17,267	8,275	8,992
1922	15,765	9,302	6,463
1923	17,198	11,059	6,139
1924	19,388	14,318	5,070
1925 (Jan. to Nov.)	23,714	16,490	7,224

As statistical methods were changed as from July 1, 1921, and the result was a drop of figures, the 1925 trade can be reported as a record. The excess of imports decreased from a monthly average of 976 millions in the first six months to an average of 273 millions in the five months from July to November. The adverse commercial balance for the whole year can be estimated at about 7,500 million lire, against 5,000 millions in 1924.

CROPS. — The year may be considered good, especially as regards wheat and rice:

	In Thousands of Tons			
	Average 1909-13	1923	1924	1925
Wheat	4,989.8	6,119.1	4,630.6	6,560.0
Maize	2,548.6	2,265.9	2,684.4	2,614.3
Rice	475.0	520.9	590.9	629.4
Grapes	7,096.6	8,384.8	7,107.5	7,143.4
Cocoons	40.8	42.6	49.4	40.6

Very good prices were obtained by the agriculturists, who are putting part of the money saved into agricultural betterments and buildings.

INDUSTRY. — Various indexes can be shown of the industrial progress of the year. The electrical energy sold in the first nine months of the year

137. February 13, 1926, pp. 15-16. The article, unsigned, was published in the supplement: *The Economist. Commercial History & Review of 1925*. Its attribution to Luigi Einaudi is certain from the correspondence between Einaudi and the editorial staff of *The Economist* (letter from Leonard J. Reid to Luigi Einaudi, November 13, 1925, in the Einaudi Archives).

amounted to 4,789 millions ettowatt-hours, against 4,357 millions in the same period of the preceding year. Coal imported in the first eleven months increased from 6,816,109 to 7,862,577 tons. Broken iron, pig-iron, and steel imported in the same period from 456,334 to 882,655 tons. Copper, from 46,364 to 59,430 tons; lead, from 11,831 to 24,107 tons; tin, from 3,377 to 3,778 tons; zinc, from 8,996 to 12,202 tons. Raw cotton, from 186,372 to 224,312 tons; dried cocoons, from 1,230 to 2,591 tons. Imports of natural wool diminished from 28,140 to 26,783; but imports of raw jute increased from 39,116 to 43,486 tons, and of cellulose from 84,553 to 127,376 tons. Railways statistics are somewhat belated, but they give a total of goods loaded of 31,131,653 tons in the first half of 1925, against 27,265,792 tons in the corresponding period of 1924 (32,039,195 tons in second half, which is always the most productive); goods imported were 3,168,939 tons, against 2,190,367 tons in the first half of 1924; goods exported 1,689,534, against 1,619,929 tons. Notwithstanding an annual increase of population of 473,000 in the period 1919-24, employment is good. The number of unemployed, which was 280,775 on January 31, 1924, decreased to 135,785 at November 30, 1924, and to 112,059 at the corresponding date of 1925. It was as low as 72,764 at August 31, 1925.

PRICES AND WAGES. — The usual set of index numbers published by Professor Mortara is as follows:

	Paper Issue	Paper Price of Gold	Wholesale Prices		Cost of Living	Wages
			In Paper Lire	In Gold Lire		
1913-14	100	100	100	100	100	100
1921	766	457	538	117	541	530
1922	751	409	530	130	500	510
1923	722	422	535	127	494	478
1924	729	444	553	125	527	477
1925	767	486	646	133	623	533

There is, as usual, a lag in the movement of wages. Expert authorities note that the above official wages number index is not, perhaps, wholly representative. A really general index would not probably be lower than the cost of living index.

MONEY AND STOCKS. — Money was very dear all over the year; the official rate of discount, which had remained fixed at 5.50 per cent. during

1924, was raised to 6 per cent. in March, and to 7 per cent. on May 16th. On the same date the rate of discount of Treasury 9-12 months' bill was also raised from 4.50 to 6 per cent. The clearings at the Italian clearing houses, which totalled 52.9 billions lire in 1914, reached 298.9 in 1919, 845.1 in 1923, 912.1 in 1924, and 1,155.8 in 1925. Bachi's number index for share prices, on the basis of 100 for December, 1918, was 130.3 for December, 1924, and continued to rise until February, 1925, when it reached 146. At that date came a reaction, partly in consequence of various decrees regulating Stock Exchange organisation. The bottom was touched in October at 116.6, but quotations never completely recovered, closing the year at 122.8.

PUBLIC FINANCE. – The deficit in the State Budget has given place to a surplus of 417 million lire. Public internal debts, which amounted to 93,163 million lire at June 30, 1924, decreased to 90,847 millions at June 30, 1925, increasing again to 91,536 at December 31, 1925. But the last increase of 689 million lire was largely offset by the increase between the same dates, June 30 and December 31, 1925, of the sum placed to the credit of the Treasury at the Bank of Italy from 236.2 to 1,550 million lire. Budget surpluses and the settlement of the American and British debts are a strong foundation to a policy of stabilisation of the lira.

138.

ITALY

STOCK EXCHANGE DEPRESSION – FOREIGN LOANS FOR INDUSTRIES – LIRA STABILIZATION POLICY

From our Correspondent

Turin, March 2

From month to month the stagnant or even bearish situation of the Bourses absorbs the attention of economic circles. A circular of a well-

138. March 13, 1926, p. 520. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Stock exchange depression again. Trend of investors towards state securities. Foreign loans for industries. How loans are utilised without effective transmittal. The stabilization policy", dated "Turin, March 2, 1926", is kept in the Einaudi archives.

known stockbrokers' firm (published in *Il Sole* on February 28th) made, among others, the following comparisons:

	Maximum Price, 1925	Present Price	Probable Dividend	Net Yield
Banking securities:			%	%
Bank of Italy (net)	1,900	1,510	60	4
Banca Commerciale	1,770	1,313	65	5
Credito Italiano	1,175	902	50	5.55
Banca Nazionale di credito	586	549	30	5.45
Banco di Roma	140	117	6	5.12
Navigation:				
Navigazione generale italiana	888	570	47	8.24
Lloyd Sabaudo	414	300	25	8.33
Libera Triestina	700	445	28	6.29
Cosulich	535	240	16	6.66
Gas and electricity:				
Alta Italia	475	300	20	6.66
Sip	369	185	15	8.10
Edison	905	630	39	6.20
Italiana Gas	793	312	25	8.01
Textiles:				
Tessuti stampati De Angeli-Frua (cotton printers)	2,500	1,150	85	7.30
Cotonificio Valle di Lanzo (cotton)	578	323	20	6.19
Cascami seta (silk)	2,340	1,230	80	6.50
Snia (artificial silk)	530	366	25	6.83
Chatillon (artificial silk)	565	270	20	7.40
Land and house property:				
Beni Stabili (Rome)	1,290	654	40	4.71
Risanamento (Naples)	1,650	1,040	50	4.80
Bonifiche ferraresesi (Land)	831	455	27.50	6.03
Mining, chemicals, metallurgical, iron & steel, & motor-cars:				
Terni	775	478	30	6.27
Montecatini	322	240	18	7.50
Metallurgical Co.	233	139	10	7.20
Fiat	617	472	30	6.35
Miscellaneous:				
Unione Cementi	502	343	25	7.28
Cementi Spalato	563	366	30	8.19
Distillerie Italiane (spirits)	310	122	—	—
Molini (flour)	1,700	962	50	5.20
Semolerie (flour)	2,050	985	50	5.07
Marsala Florio (wine)	233	155	15	9.67
Pittaluga (cinematographs)	193	145	15	10.34
Fiammiferi (matches)	725	276	13	4.71
Mira Lanza (candles)	232	115	10	8.70

With rates of dividends ranging, with a few exceptions in the banking and sugar sections, from 6 to 10 per cent., and with current prices well below – in some cases over 50 per cent. below – the peaks of 1925, the Stock Exchanges should present attractions for speculators and investors. Investors, however, are frightened out by the heavy losses sustained in past year, and speculators are interrogating economic Sibyls as to probable trend of events. The abolition of the obnoxious 15 per cent. tax on dividends of bearer securities, and of the taxation of premiums on securities issued above par, and the reduction of the interest paid on the one-year Exchequer bills from 6 to 5.50, all failed to draw the public to the Bourses.

The Finance Minister, Signor Volpi, justly remarked yesterday at Venice that it was not his fault if the public, which has bought 285 million lire of Exchequer bills at 6 per cent. in January, bought even larger sums in February after the Treasury had reduced the interest allowed to 5.50 per cent. The truth is that investors have lost faith in industrial securities owing to the spectacular decreases in prices revealed by the above table; and, reassured by the firmness of the lira, prefer to invest their savings in State securities, preferably Exchequer bills.

The appetite of the public for State securities has given rise to an interesting experiment in foreign exchange regulation of foreign loans issues. Italian industries, especially public utilities bodies, through the instrumentality of the Public Utilities Credit Institute (*Istituto di credito per le imprese di pubblica utilità*) are able to raise loans, indirectly guaranteed by mortgages to the institute, in the United States. A loan of 20 million dollars at 7 per cent., repayable in 26 years, was issued on February 26th by the Chase and Blair groups on behalf of the institute in the principal American cities. The problem was how to enable Italian industries to utilise the loan without transferring the proceeds of it to Italy. A Royal Decree of February 18th authorised the Treasury to buy, at a fixed rate, dollars or other foreign money credits raised by the Public Utilities Credit Institute. The 20 million dollars are, therefore, placed in New York to the credit of the Italian Treasury, and the Treasury opens a credit of 500 million lire for the institute at the Bank of Italy. When interest and amortisation are due the institute will pay, say, 50 million lire in Rome to the credit of the Treasury's Bank of Italy account, and the Treasury will place a sum of 2 million dollars to the credit of the institute in New York. It appears that the sums placed to the credit of the Italian Treasury in New York will go to increase the fund of 100 million dollars of the State loan, and will be available for stabilising the lira. On the other hand, the paper issue in Italy is not increased as a consequence of the Treasury buying dollars in the United States and placing lire

in Italy at the disposal of the Public Utilities Institute. As a matter of fact, the total paper issue has decreased from 21,449.6 million lire at December 31st last to 20,753.9 million lire at January 31, 1926.

By the method adopted Italian industry obtains credit in a foreign market from interested and keen leaders, but by the sale of the proceeds of the loan to the State is able to utilise in Italy Italian savings, which, owing to the peculiarities of the present Bourse situation, prefer to seek an outlet in State securities. The hope is that, by maintaining the lira at a stabilised level, a new equilibrium of internal and external prices, a reduction of costs and a revival of faith in industrial securities will be reached.

139.

ITALY

STOCK EXCHANGE REVIVAL – BUDGET SURPLUS –
TREASURY AND THE MONEY MARKET – PRICES

From our Correspondent

Turin, April 1

Since my last letter things have had a decided upward turn in the Stock Exchanges. The betterment originated with the reduction from 6 to 5.50 per cent. of the rate of interest allowed on yearly Exchequer bills on February 15th and to 5 per cent. on March 8; but the movement was accelerated by the formation of a strong consortium among the principal banks, headed by the Bank of Italy, with a fund of 100 million lire and a fighting backing of 400 millions more. Bears which were largely oversold were obliged to cover, and prices recovered. Thus Sip (electricity) shares, which I left in my last letter at 185, were quoted for settlement in March at 205, Edison at 680 (from 630), Tessuti Stampati (cotton printers) at 1240 (from 1150), Cascami seta (silk) at 1400 (from 1230), Snia (artificial silk) at 374, after cutting a dividend of 25 lire (366), Chatillon at 285 (270), Beni Stabili (house property) at 680 (654), Fiat (motor-car) at 560 after a cut of 30 lire for dividend (472), and so on.

139. April 17, 1926, pp. 789-790. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

State revenue makes a very good showing. Our Budget-making is more scientific than the British, as we take account not only of revenues collected, but also of taxes due, not only of real disbursements of the Exchequer, but also of expenditure budgeted for but as yet to be made; and we also carefully distinguish between expenditure or revenue on account of the fiscal current year and of preceding years. The months from July, 1925, to February, 1926, close, therefore, so far as the figures relate to the present fiscal year, and include expenditure legally to be incurred, with a surplus of 337.7 million lire. But if the Italian Budget were made somewhat after the British fashion of *de-facto* revenue obtained and expenditure incurred, the first eight months of the current fiscal year would make a much better showing; the *de-facto* revenue was 14,301.8 million lire and the *de-facto* expenditure 11,506.1 millions; so that the Exchequer obtained a cash surplus of 2,795.7 million lire. True, most of the cash surplus should legally be spent in some future period, but in the meantime the Treasury is enjoying a big cash surplus. It may be also that some expenditure legally to be made will never come up, so that the cash surplus will convert itself into a Budget surplus. The result of the cash situation of the Exchequer has been a large increase in the funds deposited by the Treasury at the Bank of Italy. This amounted to 236.2 million lire at the end of the past financial year (June 30, 1925), and rose to 2,689.0 million lire at February 28, 1926. This large balance gives the Treasury a strong control over the money market. If the sum were withdrawn, the Bank of Italy would restrict discounts and advances and increase the official discount rate. In addition, the Treasury is able to buy from the joint stock companies the proceeds of dollar loans, as I explained in my past letter. A novel situation is thus arising in Italy somewhat akin to the situation existing in the U.S. by the dual control of the money market by the Federal Treasury and the Federal Reserve banks.

A situation which puzzles public opinion and has given rise to much obloquy is the difference between wholesale and retail prices. After rising to the high-water mark of 731 in August, 1925 (basis 100 for 1913), Bachi's index number declined continuously to 704 in February, 1926; and the purchasing power of the lira, calculated by the Milan Chamber of Commerce, correspondingly increased from 14.6 per cent. of the 1913 level to 15.3 per cent. The stabilisation of the lira had thus reacted logically on wholesale prices. Retail prices, as portrayed by the cost of living indices (basis 100 for July, 1920), did not follow suit, but increased between August, 1925, and February, 1926, from 138.11 to 145.55 in Milan, from 144.66 to 149.24 in Turin, from 137.77 to 138.73 in Venice, and from 144.7 to 151.3 in Florence. In July, when the increase in house rents con-

sequent on the abolition of wartime restrictions will become effective, the cost of living will rise still further. Already the protests of house tenants are so universal that in several cities municipal authorities have felt obliged to constitute boards of conciliation for the fixation of rents. A fear is entertained that new increases in the cost of living will occasion a new rise in wages and in costs of production and impair the export possibilities of Italian industry. It does not seem, however, that real wages are increasing faster than prices, and Professor Mortara believes that, if in 1924 the real wages level was lower than in 1913, in 1925 the two levels are tending to equilibrium, without wages at yet getting the better of prices.

140.

ITALY

REFORM OF THE SENATE – UNIFICATION OF THE RIGHT OF ISSUE –
EXTERNAL TRADE – RAILWAY TRAFFIC

From our Correspondent

Turin, May 5

In the last session of the Great Council of the Fascist Party the essential characteristics of the reform of our Upper Chamber were announced. By the 1848 Constitutional Charter the Senate is a body wholly composed – except for the Princes of the Royal Blood, who become Senators at the age of 21 – of members nominated for life by the King by selection from among certain categories: bishops, ambassadors, prefects, generals, admirals, judges, members of the academies of sciences, members of the Lower House after a certain number of re-elections, and so on. There is also a category of men who have signally served their country, and another of great landed proprietors or industrialists. The composition of the Senate was thus, from the origin, a professional one; but the King could select Senators at his pleasure and without limit of total number, more from one category than from another. Various categories, as, for instance, that of bishops and archbishops, after the elimination of the Papal Temporal State, had fallen into desuetude. The present

140. May 22, 1926, pp. 993-994. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

reform does not radically change the present composition of the Senate. To the old categories of life Senators, which will be somewhat changed to be kept in touch with the new social classes, there will be added a category of nine-years Senators, who will be recommended to the King by the "Corporations". Corporations of employers – agricultural, commercial, and industrial – will recommend one half of the non-permanent Senators, and corporations of employed the other half. The number of nine-years Senators will not be fixed by law, and no limit will be put to the number of life Senators.

With the reform of the Upper Chamber the constitutional reorganisation of the State will be completed. There is a school of opinion in the Fascist Party which says that, in such a new State, the Lower Chamber, elected by universal and secret suffrage in individual constituencies, has no logical place, and must therefore be abolished. But no official declaration has been made upon the point. It should be remarked that the recommendations to the King for non-permanent Senators are not to be made by suffrage of the members of the corporations, but by the Central Council of the Federations of Corporations.

On the same occasion there was announced the unification of the right of note issue. At present we have in Italy three banks of issue – the Bank of Italy, governed by Signor Stringher, and by far the most important; the Bank of Naples, whose governor, Signor Miraglia, 92 years old, is about to retire, in the full freshness of mind; and the Bank of Sicily, governed by Signor Mormino. The last two banks are old institutions, a legacy of the Kingdom of Naples and Sicily. They will be transformed into ordinary regional banks for the aid of agriculture and industry in their respective regions. They are not joint-stock banks, but public bodies, whose income was already devoted to public purpose. The right of issue will be concentrated in the Bank of Italy, but the details of the plan are as yet not published.

External trade results for March, 1926, were as follows: – Total imports, 2,417 million lire, a decrease of 106 million lire compared with March, 1925; total exports, 1,457 million lire, a decrease of 33 million lire compared with March, 1925. For the first three months of 1926 imports totalled 6,620 million lire, against 6,500 million lire in the corresponding period of 1925; total exports decreased to 3,932 million lire, compared with 4,018 million lire in the same period of 1925. The deficit of the commercial balance was thus of 2,686 million lire, against 2,482 million lire for the same period of 1925. The total number of passengers carried on the State railways amounted in 1925 to 110.5 millions, an increase of 10.4 millions compared with 1924. The gross revenue for passenger transport was 1,677.2 million lire (1924, 1,406 million lire). The greater part of the rev-

enue (nearly 60 per cent.) was due to third-class passengers. For 1926 figures are not as yet available. But the increase seems to continue, perhaps on a smaller scale. Goods transport in the second half of 1925 amounted to 32.8 million tons, as can be seen from the following table:

	Number of Cars Loaded		Difference	Tons of Goods Loaded		Difference
	1924	1925	%	1924	1925	%
July	546,898	558,684	+ 2.16	5,209,496	5,481,608	+ 5.22
August	555,899	554,990	- 0.16	5,370,966	5,416,661	+ 0.85
September	575,752	577,051	+ 0.23	5,539,596	5,677,523	+ 2.49
October	611,230	607,942	- 0.54	5,835,720	5,944,602	+ 1.87
November	523,980	525,821	+ 0.35	4,937,590	5,147,351	+ 4.25
December	545,237	530,628	- 2.68	5,145,827	5,128,928	- 0.33
Total	3,358,996	3,355,116	- 0.11	32,039,195	32,796,673	+ 2.36

The impression given by these figures is of a check in the increase of goods transport. This impression is re-inforced by the January, 1926, statistics, which show a still greater decrease. The cause of the crisis must be sought in the general increase of freight rates passed with the new tariff of May, 1925, and in the bad weather of the last months of 1925. But the crisis seems to be temporary. The general condition of industry and agriculture continues to be very good, and an early revival of railway transport can be easily foreseen.

141.

ITALY

THE REAL MONETARY PROBLEM - BALANCE OF PAYMENTS -
BUDGET SURPLUSES - CIRCULATION AND PUBLIC DEPOSITS

From our Correspondent

Turin, July 6

The vagaries of the rate of exchange, which has gradually increased from the level of 125 lire to the pound sterling at the end of April to about

141. July 10, 1926, pp. 69-70. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

140 lire at the present time, continue to be the most important problem in the economic life of Italy. I will try to indicate what is, in my judgment, the exact economic point on which the solution of the problem depends. It is not the so-called balance of trade. True, we have had, in the first four months of the year, an excess of imports over exports of 3,761.1 million lire; but we had an almost exactly equal excess in the past year of 3,746.1 million lire; and even if we suppose that the total excess for the whole year will be the same as in 1925 – viz., 7,896.8 million lire – we do not get at a figure appreciably higher than the pre-war figures, which oscillated around 1,200 million gold lire from 1860 onwards – *i.e.*, from the birth of the united Italy we always had an excess of imports over exports, and rates of exchange were frequently at par. In 1923 and 1924, notwithstanding the excess of imports over exports, the international balance of payments was evenly balanced, remittances of emigrants, expenditure by foreigners travelling in Italy, national merchant marine income, &c., making up for the commercial gap. We have not, for 1925 and 1926, figures for the invisible items of the balance of payments, but there is no probability that they will differ very much from past experience.

The Budget balance is no longer a factor in the falling value of the lira. Whatever opinions may be held about present Italian politics, one fact is certain that figures published in the official documents over the signatures of the Director-General of the Treasury and of the Accountant-General of the State are undoubtedly true. Charges of forged figures, which I sometimes see in foreign newspapers, are absolutely untenable. The published figures show the real situation of the Italian Budget. I am almost tempted to say that the situation is too strong. In the first 11 months of the past financial year the surplus of revenue over expenditure was 811.8 million lire. And this is not the end of surpluses. In our system of accounting, in the revenue figure we include the taxes to be recovered, and on the expenditure side the disbursement to be made on account of the appropriations of the year. At the end of the year the Treasury retains more or less big sums of money, which are not technically surpluses, because at some future date, possibly a very distant date – let us say 1930 – a call can be made on them for meeting belated expenditures appropriated in 1925-26. Cash surpluses are, therefore, much larger than Budget surpluses.

How much larger cash surpluses are than Budget surpluses can be judged from July 1, 1925, to May 31, 1926, figures; the surplus of *actual* revenue over *actual* expenditure was 3,049.6 million lire, as against 811.8 million lire *Budget* surplus. True, the difference is not technically a surplus,

it may, in fact, be expended one or two, or perhaps 10, years hence. But, as a matter of fact, it is not being expended at present, and it is highly probable that, in the course of time, many appropriations will become obsolete, and the corresponding expenditure never will be made, so that what is at present only a *cash* surplus will become a true Budget surplus.

Our Treasury is, therefore, in a very strong position. The Finance Minister can boast of a Budget surplus of about 800 million lire, and of an additional unexpended surplus of 2,200 million lire. These surpluses are, for the time being, so big that the Finance Minister can view with equanimity the increase in prospective public works expenditure, which is the consequence of the Government's grandiose programme of reconstruction of Southern Italy.

The only feature which calls for explanation, and for a very prudent policy, is a different one, on which financial critics usually do not lay any stress. In spite of the big Budget and cash surpluses, the Treasury found it necessary to increase the total of public internal debt from 90,847 million lire at June 30, 1925, to 92,033 million lire at May 31, 1926. Why? The reasons are many, and it would take too much space to enumerate them. Among them is one which bears directly on the paper money problem, and which can be explained only by a reference to paper issue figures:

(In Millions of Lire)

	Bank of Issue and State Notes Issued		Commercial Discounts	Sums Held by the State Treasury in Current Account at the Bank of Italy
	For Trade Account	Total		
	1	2	3	4
December 31, 1923	6,185.8	19,674.3	4,690.2	2,011.2
June 30, 1924	6,054.6	19,952.8	4,638.3	756.5
December 31, 1924	6,788.6	20,541.9	4,483.6	807.7
June 30, 1925	8,268.8	21,117.0	5,225.6	236.2
December 31, 1925	8,766.0	21,449.6	5,929.0	1,550.2
May 31, 1926	7,416.3	19,816.5	6,168.3	2,471.0

The figures in columns 1 and 2 are good; the total of paper issue, after reaching top figures at the end of 1925, is diminishing, and is being kept under the 20 billions level, which is the safety line of our foreign exchange. Also figures of issues of notes for trade account are at present decreasing. But column 3 shows that commercial discounts – that is, the mass of bills

and acceptances discounted by the banks of issue – are continually increasing. Our banks of issue, notwithstanding the limitation of note issue, support an expanding structure of commercial and industrial activity. They do not support the expansion by the increase of their private deposits, for these deposits are practically stationary. The means of support come out of public deposits. After decreasing to a minimum of 236.2 million lire at June 30, 1925, public deposits rose to the big figure of 2,471 million lire at May 31, 1926. This figure of public deposits at the banks of issue is, perhaps, the most significant one in the interesting and well-compiled monthly bulletin of our Treasury. It means, in short, that the Treasury utilises the best portion of its Budget and cash surpluses in keeping a big deposit at the Bank of Italy; and this public deposit is the source from which the Bank of Italy draws the means to make larger advances to commerce and industry, notwithstanding the decrease in note issue. As it is, public deposits are note issues in being. For, if the Treasury were to diminish its deposits to 236.2 million lire as at June 30, 1925, then the total note issue would be forced to jump up by about 2 billion lire. This is the crux of the present situation, which lies not in the balance of payments, not in the Budget situation, but in the risk of an increase in note issue consequent upon an unforeseen obligation causing the Treasury to withdraw deposits from the Bank of Italy. The monetary problem, from a strictly monetary point of view, can be put thus: how to keep the total note issue under the 20 billions level, even when the public deposits are reduced to their normal level of, let us say, 500 million lire.

Italy has solved other bigger financial problems, and she will solve this lesser monetary problem. Gradual restriction of discounts by banks of issue to the $4\frac{1}{2}$ billion lire level, gradual corresponding increase of discounts by other ordinary banks and savings banks through an increase of private saving – these are the only visible methods by which it will be possible to put an end to the risky business of financing industry through public deposits. Signor De Stefani decreased public deposits from 2,011.2 to 236.2 million lire; the present Minister will, no doubt, attentively watch this last door remaining open to a possible increase of circulation, and close it in the course of time against all future threats against the stability of the lira.

142.

BANK CONTROL IN ITALY

By our Turin Correspondent

The attention of financial circles is centred at present on the problem of control of banks. Political and economic reasons have contributed to give prominence to the problem. Through the creation of corporations of employers and employed, Fascism is endeavouring to give unity to industry and commerce, and to subordinate all economic life to Government direction. Banks, to which are entrusted the savings of the people, could not hope to maintain their independence from the all-pervading spirit of governmental control. It is contended that banks should not do business only for the sake of profits, but should always consider the "national" scope of every business proposition, and prefer to the most profitable the most conducive to approved national ends. This point of view should be especially paramount in all those cases which have a connection with the state of foreign exchanges. In some political circles there is a feeling that the big private banks are not keen in sustaining the public policy of devaluation of the lira, and there is some impression of undue interference of what is called "international finance" to the detriment of the lira. Strictly economic circumstances add emphasis to the general political ones. Several failures of banks – among which the most sensational was the failure of the Agricultural Bank of Parma – gave the impression of gross mismanagement which could and should have been prevented by timely control of competent supervisors. Old objections were repeated against the multiplication of small banks with insufficient capital, which are successfully catering for deposits among ill-educated people, mainly by the promise of high rates of interest.

At first the idea of "control of the banks" took the following shape: 1) The creation of a body of State officials who should periodically inspect banks, and report to the Government on all unsound or otherwise (politi-

142. September 11, 1926, pp. 417-418. The article, unsigned, was published in the section: "Leading Articles". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Control of Banks. Political and economic reasons of the control. Methods proposed and criticism of them. The new paramount position of the Bank of Italy. Savings and the monetary standard problem", dated "Turin, August 31, 1926", is kept in the Einaudi archives.

cally or economically) objectionable business done by them; 2) the appointment of a Government representative on the boards of directors (*consiglio di amministrazione*) of the banks, eventually with the right of veto against objectionable operations. It was soon discovered that control by these means would probably be ineffective, and certainly risky. The first method of public official inspection of the banks was tried in the old days before the enactment of the present Commercial Code (1884), and is at present operative for savings banks and kindred semi-public institutions. It did not, and does not, prevent occasional banking failures. When a bank is badly run, books are in perfect order, and inspectors seldom discover anything objectionable. Even Government representatives sitting on boards of directors would not be able to get real knowledge of the inside of the bank's business. Important things are managed outside directors' boards by the president and the general manager (*amministratore delegato*). Boards are frequently called on to approve accomplished facts. Nor could it perhaps be otherwise, owing to the urgency and secrecy of the most important decisions.

The control by public inspectors or representatives, too, was seen to be apt to get the State into trouble. Control by the State would by the great mass of depositors be interpreted as a guarantee by the State of the soundness of the bank's direction. Morally, if not legally, the State would be considered by the public as responsible for deposits. In case of failure, depositors would complain if the State did not make up the deficiency.

Full weight has been given to these considerations in the decrees approved to-day by the Cabinet, according to which the control of the banks will run on the following lines: 1) There will be some regulation as to the minimum proportion between the capital and deposits; 2) no new bank and no new branch of existing banks can be opened without the Government authorisation, which will be given only after investigation and advice of the Bank of Italy; 3) banks accepting deposits will be obliged to put 10 per cent. of annual profits to a special reserve, up to 40 per cent. of the capital of the bank; 4) lastly, and most important of all, the situation of the Bank of Italy is to be strengthened. This bank, which, from July 1, 1926, is the only bank of issue in our country, is to be put in the same position as the Bank of England or the Federal Reserve Bank of the United States. The Bank of Italy, before accepting for rediscount commercial bills from other banks, is to require stringent information about assets, investments, &c. Banks are to be obliged to send periodical statements to the Bank of Italy, and officials of the Bank of Italy are to have the right of checking the statements by examination of books. This is certainly a legit-

imate and effective control, in so far as other banks need to have recourse to the Bank of Italy for rediscount.

Supervision of the Central Bank of Issue is effective if other banks are dependent on it. It is doubtful if in our country this dependence does at present largely exist, and the money market is not so organised in Italy as to concede to the Central Bank a paramount influence. It may be, however, that by and by a system will grow in our country comparable to British or American practice.

Perhaps the most important problem of the present day is not how to protect savings, but how to make them expand. I reproduce in millions of lire figure of deposits at various dates:

End of:	Dec., 1924	April, 1925	Dec., 1925	June, 1926	July, 1926
Postal saving State Bank	9,911.6	10,131.9	10,617.6	10,415.5	10,516.1
Ordinary saving banks	12,220.8	12,773.6	12,790.9	12,872.7	—
Six ordinary big banks	3,329.0	—	3,229	3,267.9	—
Three big people's banks	930.5	—	939.4	969.9	—
Local banks	3,911.8	—	3,907.0	3,888.9	—
Loans banks (Monti di Pietà)	794.7	821.7	791.7	*785.9	—

* May 31st figure.

The "six ordinary big banks" are the Banca Commerciale, Credito Italiano, Banco di Roma, Banca Nazionale di Credito, Banca Agricola Italiana, and the Banca d'America e d'Italia; the three big "people's" banks are the Banca Popolare Cooperativa Anonima di Novara, Banca Popolare di Milano, and the Banca Popolare di Cremona.

The figures are not complete, as many "people's" banks, the rural banks, and all private banks, are excluded; but they give an impression of stationary savings. Probably the causes of the disquieting phenomenon are various, but one is too evident to be overlooked. In all countries with unstable money new savings were, or are, lacking. So it was in Germany and in Austria, and Italy cannot be an exception to the universal rule. The return to stable money is therefore an ideal aimed at by everyone in Italy, from Signor Mussolini, who proclaimed at Pesaro that every necessary effort will be made to sustain the lira, down to every small saver, who is anxious to invest safely his hard-won money.

To-day Cabinet's deliberations gave a clear meaning to the general aims embodied in the words "battle of the lira": 1) the proceeds of the Morgan loan will be transferred completely on September 1st to the Bank of Italy. The gold reserves of the bank will thus be increased by 90 million dollars,

or 455 millions gold lire, to a total of 2,400 millions gold lire. The bank will in return cancel 2,500 millions paper-lire of their advances to the Treasury; 2) the issue of Treasury notes (small notes of 5, 10, 25 lire) will be reduced from 2,100 to 1,700 millions lire, owing to withdrawal and cancellation of 400 millions lire of 25-lire notes. The remaining 1,700 millions lire of 5 and 10 notes will be replaced by a corresponding sum in coins; 3) in the successive State budgets, beginning with the 1926-27 Budget, a yearly sum of 500 millions lire will be included for the withdrawal and cancellation of a corresponding sum of bank notes issued on State accounts. In the course of about eight years all the note issue on State account should disappear; 4) the special section of the Consortium created to conduct the salvage of the Banca Italiana di Sconto and the Banco di Roma will be liquidated as soon as possible, 5) a maximum limit is fixed to note issues of the Bank of Italy on commerce account. Where the limit is fixed, to-day's official *communiqué* does not disclose.

In consequence of the above decisions, the next balance sheet statements of the Bank of Italy for September 30th and October 31st will be watched with the utmost interest, as they will bear traces of the vigorous deflationist policy to-day inaugurated. It would be very desirable that great care should be bestowed on the comparability of the figures before and after unification of the issue privilege. This should be one of the tasks entrusted to the newly appointed vice-director general of the Bank of Italy. The appointment of Signor D'Aroma to the vice-directorship of the Bank of Italy marks the end of many rumours current about the retirement, after 25 years, of the present director general, Signor Stringher. Stringher will remain at the head of the enlarged Bank of Issue, but he is strengthened by the appointment of Signor D'Aroma as vice-director, a very close friend of his, and a young, energetic man. For seven years (October, 1919, to August, 1926) D'Aroma was director general at the Finance Department, and to him is to be chiefly – not to say entirely – attributed the merit of the reorganisation of the direct taxation system. He is by far the strongest man discovered in the public services in the last decade, and his co-operation with Stringher will, it is hoped, be successful in solving the monetary problem – the most momentous of Italy's problems to-day.

143.

ITALY

SUPPRESSION OF CONSORTIUM – CONSOLIDATION OF TREASURY BILLS –
NEW NATIONAL LOAN – BUSINESS MEN'S MANIFESTO – BOURSE DECLINE

From our Correspondent

Turin, November 7

Two events of far-reaching importance have just taken place. The first is the suppression of the "autonomous" section of the Consortium for industrial securities. The Consortium, as I have explained in previous letters, was created, as far as the "ordinary" section is concerned, in 1914 for the purpose of making advances to joint-stock companies and industrial firms. But in 1922 an "autonomous" section was started with the purpose of the salvage first of the Banca Italiana di Sconto, and then of the Banco di Roma. After the advances of the Consortium had reached a maximum of 4,120 millions lire, a decree of January 1, 1924, put an end to new operations. But the liquidation was slower than was deemed in accordance with the new deflationist policy; therefore, by a decision taken at the Cabinet session of November 5th the section has been dissolved. The remaining assets are to be sold gradually by a new institute, wholly separate from the Bank of Italy. The Bank of Issue will be no more encumbered by this legacy of past times, and its note issue will be thenceforth counterbalanced only by normal assets—gold reserves, normal trade discount, and advances to the Treasury, these last to be gradually eliminated.

The second event is the consolidation of the Treasury bills. The brightest feature of the monetary situation has been the gradual decrease of Treasury bills, which, as the Finance Minister, Count Volpi, aptly remarked, were a continuous menace to the circulation, for they could always, when due, be exchanged for cash and force the Treasury to increase the note circulation. To the Treasury bills called "ordinary", which amounted at October 31st to 15,540 millions lire, we must add 1,029 millions 5-years bills, 4,000 millions 7-years bills, and 6,991 millions 9-years

143. November 13, 1926, pp. 822-823. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

bills – total 27,560 millions. It appears from statements made by Count Volpi and the *Corriere della Sera* that, following upon the restriction of credit policy, bearers of Treasury bills claimed, when due, the repayment of an unusual proportion of them. The Cabinet Council in their session of yesterday sanctioned a decree of consolidation. The Italian plan follows the Belgian precedent, but with important points of difference. All ordinary, 5-years, and 7-years Treasury bills are forcibly consolidated – *i.e.*, exchanged for 5 per cent. Consols at different rates of exchange, from 116.50 lire nominal 5 per cent. Consols for every 100 lire ordinary bills, to 115.50, 113, and 112 lire 5 per cent. Consols for every 100 lire 5 and 7-years bills, according to the date when they will become due. Nine-years 5 per cent. bills can be voluntarily exchanged for the new 5 per cent. Consols issue at the rate of 107.50 lire; if they are 4.75 per cent. bills the rate of exchange in 100 against 100. Special rules will be enacted so as to preserve the right of 7 and 9-years bills to premiums.

The new 5 per cent. Consols will be also offered for public subscription at the price of 87.50. A banking syndicate consisting of the Bank of Italy, the State Deposits and Loans Bank, the National Social Insurance Institute, and several other semi-public financial bodies, saving banks, &c., will manage the market for the new security. Those public bodies and others which by law or by their rules are obliged to invest in public State securities will subscribe to the new 5 per cent. Consols. The proceeds of the subscription will be deposited at the Bank of Italy, and, with other special deposits of the above-mentioned bodies, will be utilised in advances to industry with the new security as collateral. The market will, therefore, not suffer on account of the forced consolidation, as the bearers of Treasury bills will have the right of obtaining advances on deposit of the new 5 per cent. Consols as collateral. If the necessity should arise for removing, in consequence of these advances, the 7-billions lire limit to the commercial circulation, the excess over 7 billions up to 8 billions will not be subject to the extraordinary tax.

In financial circles rumours were current that the consolidation is the first step, as in Belgium, to currency stabilisation; but this conclusion is at least premature. Minister Volpi authoritatively stated that consolidation is a logical sequence to the Pesaro speech of Premier Mussolini, and that it is a further step in the policy of defence and revaluation of the lira.

The manifesto of business men for international freedom of commerce did not have an enthusiastic reception in Italy. Perhaps the only public endorsement of the manifesto's policy was a resolution of the executive committee of the Italian Liberal party; but, given the present low fortunes of

the Liberal Opposition, the support is somewhat platonic. In the Press only the Turin *Stampa* published a favourable comment. The rest of the Press was unanimous in publishing very adverse criticism of the manifesto, describing it as an endeavour of rich countries – very well supplied with mines and raw materials and possessing old industries – to capture world trade at the expense of industrially new and poor countries, like Italy, who are labouring under two great handicaps – the increase of population, to which foreign outlets are vetoed by restrictions against immigration, and the lack of iron, coal, oil, cotton, wool, wool-pulp, phosphates, and most other raw materials of industry. How a European zollverein would prejudice the just claims of Italy for the abolition or mitigation of foreign restrictions against our emigrants no critics explained. As to raw materials, it is probable that the signatories of the manifesto, such as Signori Agnelli, Gualino, Conti, Pirelli, who are perhaps the greatest captains of industry in Italy, would not feel embarrassed at all by the zollverein's existence in acquiring the best raw materials at the lowest prices in the best markets. There are some presumptions that Italian industrialists are meeting successfully foreign competition, precisely owing to their ability in purchasing raw materials at the best moment. In the *Lavoro d'Italia*, the official daily paper of the Fascist employees' corporations, a Fascist M.P., Signor Lanzillo, published an article in which, while resisting the temptation to inquire into the selfish motives of the British manifesto, recognised that the idea of a European zollverein was bound to be discussed more and more attentively, owing to the impotence of the present small and divided industrial countries in Europe against the growing competition of the gigantic unified American industrial complex. The probable outcome of the lively discussion, or, more exactly, criticism, of the manifesto will be that the Italian delegation at the next Economic Conference of Geneva will declare their willingness to adhere to an enlarged freedom of trade, and will quote in support of their attitude the numerous treaties of commerce concluded by the present Government, all of them with the most-favoured-nation clause; but will insist in connecting the problem of the lowering of Customs with the discussion of other restrictive measures and mainly of restriction of emigration.

The most sensitive market in October was the securities market. If I reproduced and brought up to date the table I gave in the issue of October 2nd new spectacular collapses in prices would be apparent. For instance, Fiat shares, which closed in August at 534 and had dropped by September 28th to 378, were at one time as low as 290. Afterwards they rallied to 346. Snia Viscosa shares, from an August closing price of 276, fell to 189 on

September 28th, and in October reached bottom at 110, from which level it has since substantially recovered. I have only quoted two securities of large companies well known in Great Britain, but the tale of collapse is general. Several failures of Bourse brokers were reported after the end of September, and the settlement was very difficult. In the last ten days of October Stock Exchange seas were less stormy, and hopes are entertained that the public and operators will get tired of throwing out of the windows good securities at prices, on the average, less than half of those ruling at the beginning of 1925.

144.

ITALY

NEW LOAN – PASSING OF THE TREASURY CRISIS –
EXCHANGES, PRICES AND WAGES

From our Correspondent

Turin, November 27

No new features have developed since my last letter in the stock exchange markets. The number of securities which change hands daily is small; as can be seen from the interesting figures which are for the first time summarised by the Treasury, foreign exchanges hover between relatively small limits, excepting the French franc, whose fluctuations are more pronounced. Public attention is focussed on the new 5 per cent. national loan issue. Although the price of the old 5 per cent. is only about 84 to 84.50 lire, which, with a coupon of 2.50 lire due a month hence, means about 82.50 net, the new issue is a success. At the date of writing subscriptions total 1,000 millions lire. Undoubtedly subscribers are moved by a patriotic sense of duty. They feel that the Treasury must be put in a strong position, so as to be able to pursue a definite policy of defence of the lira. It appears from the Treasury account of October 31st that during the month of October 725 million lire of Treasury short bills had to be repaid on falling due. The cash in the exchequer went down to 62 millions lire,

144. December 11, 1926, p. 1011. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

and the Treasury current account at the Bank of Italy, which at the end of February was 2,669.7 millions, and was still 1,970.4 millions at June 30th, was reduced to 632.1 at September 30th, and had been turned at October 31st into an overdraft of 129.7 million lire. At present the crisis, thanks to the consolidation of the Treasury bills, is over. Effective revenue in the first four months of the fiscal year, from July to October, was 6,287.4 against 5,984.1 expenditure, with an excess revenue of 303.2 million lire. As the only cloud in the Treasury sky were the bills becoming due, the way is open, with good revenue coming in and the proceeds of the loan, to the solution of the monetary problem.

Public opinion is somewhat incensed by what seems to be unjustifiable resistance by the retail trade to the reduction of prices. At a meeting of the High Council of National Economy proposals were made for accelerating the process of adaptation of prices to the improvement in the gold price of the lira. It cannot be said, however, that wholesale and retail prices have been insensible to the improvement in the foreign exchanges. The following table was construed from the figures published in the new Monthly Bulletin of the Central Statistical Board (*Bollettino mensile di Statistica dell'Istituto centrale di Statistica del Regno d'Italia*, Numero 1., November, 1926, Libreria dello Stato). Hitherto current official figures had to be sought in the useful appendices to the monthly Treasury Account. Henceforth the Treasury Account will again contain only budgetary, public debts, and bank of issue official statements. Economic and financial statistics will be published in the new Monthly Bulletin of the Central Statistical Board, which is put under the energetic direction of Professor Corrado Gini. The first number is a rich mine of data, from which it would be possible to quote at length. As to the problem of the relations between foreign exchanges and internal prices, the figures in the Bulletin are as follows:

	Gold Price of the Lira	Wholesale Prices (basis 1913 = 100)	Retail Prices Milan (basis 1 st half 1914 = 100)	Wages (basis 1913 = 100)
January	477.9	658.6	665	552
February	479.0	654.7	661	
March	480.0	640.3	647	
April	479.6	636.4	642	567
May	500.3	642.9	652	
June	527.7	654.1	650	
July	575.7	676.7	649	584
August	589.2	691.3	652	
September	528.1	682.8	647	
October	470.9	654.6	672	—
November 8	458.9	638.1	—	—
15	468.3	645.2	—	—

The conclusion is that the gold price of the lira fluctuated very much more than prices. Against an increase of 111.3 points between January and August in the gold price (*i.e.*, dollar or sterling price) of the lira, wholesale prices increased only 32.4 points, and retail prices even fell 13 points. When foreign exchanges improved and the gold price of the lira diminished 130.9 points, from the end of August to November 15th, wholesale prices diminished only 46.1 points, and retail prices even increased (up to the end of October) by 20 points. It cannot be said that fluctuations of foreign exchanges do not reflect themselves on internal prices; but their influence is slow, and sometimes is not wholly spent when a new movement begins in the inverse direction. Probably wholesale prices would have gone up after August, if the direction of foreign exchanges had not been inverted. One must add that wholesale prices would make a better showing, from the consumers' point of view, if it were not for the British coal strike and its repercussions on prices of metals and on freights. The only group which marks an increase between January and the second week of November is the mineral and metals group from 625.0 to 767.3. Therefore, when the consequences of the coal strike are over, the general price index will go down. Wages are continually increasing, but are as yet lagging behind in comparison with the cost of living. There is, therefore, a just ground for the contention of the workers' corporations that wages must not be reduced, and that, although rising, they are not in equilibrium with the increase of prices. Prices will have to move a long way downward before wages can be touched.

145.

ITALY

STOCK EXCHANGE SITUATION – UNEMPLOYMENT – FOREIGN TRADE –
NEW ISSUES AND SAVINGS – BANK BALANCE-SHEETS

From our Correspondent

Turin, December 31, 1926

The attention of financial circles is again almost exclusively focussed on the Stock Exchange situation. Closing settlement prices of representative variable dividend securities were as follows:

145. January 8, 1927, pp. 68-69. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

	Par Value	February, 1925	December, 1926	Last Div.
Bank of Italy	600	1,964	1,820	60
Banca Commerciale	500	1,600	930	65
Credito Italiano	500	1,008	604	50
General Italian Navigation Company	500	835	504	50
S.N.I.A. Viscosa (artificial silk)	200	455	128	25
Montecatini (artificial manure and chemicals)	100	296	178	18
Fiat (motor-car)	200	555	310	30
Edison (electricity)	300	880	490	42
Ligure Lombarda (sugar)	200	799	430	24
Beni Stabili (real estate, Rome)	200	1,183	550	30

Since the last settlement day (December 24th) the market has gone from bad to worse. Bank of Italy touched bottom at 1,700, Banca Commerciale touched the 900 lire mark, Fiat went down to 275, and so on. From time to time short-lived recoveries take place, but they were almost always checked by a deluge of selling orders. At the present level of prices there is on the market quite a number of good first-rate securities – big banks, electricity, motor-car, land and house property – whose yields range from 6 to 10 per cent. and more. There is much speculation abroad as to the causes and probable outcome of the downward tendency. Some people point to the high rates of interest, from 8 to 9 per cent., which have to be paid for carrying over speculative accounts in the bourses. Clearly people get tired of paying such rates, with the results of throwing good money after bad. But in its turn, why are such interest rates current? The revaluation or stabilisation theory, which is the most obvious reply, is a general theory, whose meaning is different from country to country, and from time to time. That in Italy, as in France, there is a revaluation crisis seems certain; but the features of it are not the same as, for instance in Germany or Great Britain. Huge figures of unemployment are, for instance, lacking. The average monthly number of insured workers receiving unemployment pay was only 34,413 in October, as compared with 24,221 in January, 1926. Of course, these figures refer only to the unemployed who are entitled to receive grants from the National Institute for Social Insurance, and, therefore, the total actual number of unemployed is higher. Statistics of this institute gives the total number at 79,678 as a minimum for July, and 156,139 as a maximum for January, 1926, with 148,821 for November. It does not seem probable that unemployment, although higher than in 1925, is going to be in Italy a great social problem as in other industrial countries. We are a predominantly agricultural country; many industries are located

in agricultural regions; workmen or their relatives have connections with land, and derive aid from land-owning or land-tilling. Moreover, notwithstanding the rapid increase of population, there is a dearth of man-power in agriculture, so that land may act as a safety-valve against excessive unemployment distress in the cities.

The external trade figures do not as yet bear traces of that reduction in exports which had been prophesied as a consequence of the revaluation of the lira, and the disappearance of the premium on export:

January to October (Millions of Lire)			
	1925	1926	Increase
Imports	21,706.9	21,833.9	+ 127.0
Exports	14,791.3	15,041.9	+ 250.6
Excess of imports	6,915.6	6,792.0	- 123.6

An interesting symptom of the dearth of money is the decrease in the new appeals to the market made by joint stock companies:

(Millions of Lire)				
	Number of Joint Stock Companies Existing at the Beginning of the Year	Increase Over the Previous Period	Capital of the Joint Stock companies at the Beginning of the Year	Increase Over the Previous Period
1913	2,951	—	5,506	—
1918	3,463	512	7,257.4	1,751.4
1922	6,075	2,612	20,248.8	12,991.4
1923	6,734	659	21,293.3	1,044.5
1924	7,782	948	23,421.3	2,128.0
1925	8,946	1,164	28,260.7	4,739.4
1926-Jan. 1	10,515	1,569	36,277.8	8,017.1
Dec. 1	11,816	1,301	39,774.2	3,496.4

The interesting feature of the table, after the great increase in the post-war period, when the lira was devaluating (from 1918 to 1922), is that in the years from 1922 to 1925 the absolute rate of increase was in each year almost exactly double that in the preceding year. In 1925 there was a frenzy of new issues — 8 billions against 4.7 in 1924. In 1926 the process is reversed; in the first eleven months of 1926 the increase of capital is only 3,496.4 millions against 8,017.1 millions in the whole of 1925. The decrease is due partly to the Treasury restrictions, as now each new issue has to be sanctioned by the Treasury, but is also the consequence of the difficulty of finding a market for the new securities. Banks, holding com-

panies, capitalists, and operators were kept busy during the last nine months of 1925, and the whole of 1926 in writing down valuations of securities, according to the declining levels of stock exchange quotations, and it is probable that new savings of the middle and upper classes were absorbed by such writing down. Figures for banking deposits, therefore, do not bear evidence of increases comparable to these recorded up to the end of 1924 (in millions of lire):

(In Millions of Lire)

	Postal Saving Banks	Ordinary Saving Banks	Six Big Commercial Banks	Popular Banks	Regional Banks
End of 1913	2,108.3	2,727.2	584.8	144.5	525.5
" 1918	3,481.0	—	1,385.7	317.6	1,146.5
" 1924	9,911.6	12,220.6	3,329.0	930.5	3,911.8
" 1925	10,617.6	12,790.9	3,229.0	939.4	3,907.0
Sept., 1926	10,721.2	13,069.2	3,280.7	998.1	3,930.3
Oct., "	10,666.5	—	3,233.2	954.4	3,904.7
Nov., "	10,577.5	—	—	—	—

From the slowness of the increase in the savings figures in 1925 and 1926 we must not draw the conclusion that Italians do not save. In addition to the big sum devoted, as mentioned above to writing down valuations of securities (Bachi's general index of variable dividend securities went down from 163.4 at December, 1924, to 111.3 at November, 1926), big sums were invested in buildings (town and country) and in agricultural improvements. Landowners and farmers all over Italy are investing their savings in agricultural machinery, reconstructing old-fashioned farm buildings, irrigation, reclaiming of waste lands, &c. There is, also, much more caution displayed than in the last months of 1924 and the first of 1925. In those times big banking overdrafts were usual, and banks encouraged their customers to avail themselves liberally of the facilities afforded by them to industry and commerce, but after March, 1925, the general policy of the banks became quite different; month after month banks were insisting on the reduction of overdrafts. The banks' situation is, therefore, more liquid. From a study of the balance-sheets of 50 banks it appears that the cash at hand increased between December 31, 1924, and October 31, 1926, from 1,679 to 2,207 millions lire. The proportion of the capital to total liabilities was also stronger; 2,441 against 29,666 millions at December 31, 1924, and 3,540 against 34,074 millions at October 31, 1926. Another index of

the increased liquidity of the banks is the big increase of the banks of issue deposits. Whereas, as seen above, the ordinary bank deposits increased very slowly, the deposits of the banks of issue increased from 1,191.2 millions at the end of 1924, and 1,001.3 at the end of 1925, to 2,034.0 millions at November 30, 1926. As the Bank of Italy is the banks' bank, it appears that commercial banks are aiming at keeping their positions more liquid and stronger. Italy is indeed passing through a difficult adaptation to a new level of prices; and, as usual some suffering is the inevitable accompaniment of the revaluation of the lira. But the final outcome of the process seems to be the elimination of the unfit, more liquidity in the banks, lower, and, thererore, saner valuations in the balance-sheets; more prudent ideas of future profits, and a consequent check on expenditure. Perhaps prudence will continue to give counsels of restraint in the coming months, but prudence and restraint were always in difficult times the best roads towards recovery and future prosperity.

146.

ITALY

STOCK MARKET REVIVAL – WHOLESALE PRICES – HOURS OF LABOUR –
LOAN RESULT – BUDGET SURPLUS

From our Correspondent

Turin, January 29

A sharp recovery in the stock market has taken place since my last letter. Its extent can best be gauged by the new index number of 35 representative securities published by the Milan Chamber of Commerce (basis, December, 1925=100):

146. February 5, 1927, p. 276. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Revival in the stock-exchanges. Decreasing wholesale prices. Reduction of days worked in the cotton industry. Abolition of the ninth hour. Success of the loan and budget surpluses", dated "January 29, 1927", is kept in the Einaudi archives.

	July 31, 1926	Dec. 24, 1926	Dec. 31, 1926	Jan. 7, 1927	Jan. 15, 1927	Jan. 22, 1927
Banks (3)	105.5	72.0	73.5	74.2	81.2	85.2
Navigation & Transport (3)	98.3	73.4	74.0	75.0	73.9	77.2
Textiles (7)	69.4	34.3	33.5	34.9	38.4	45.9
Minerals, iron and steel, and engineering (6)	95.1	60.8	62.2	62.9	66.5	72.0
Electrical (7)	92.8	69.0	70.5	72.2	74.5	77.1
Real estate & agricultural (5)	100.5	59.3	60.3	65.4	64.3	70.0
Food and miscellaneous (4)	101.3	69.4	66.6	68.8	69.4	73.3
Total (35)	92.2	61.8	62.6	64.1	66.8	71.4
Turnover	-	3.59	4.29	3.77	7.27	5.74

The recovery was the most marked in the textile group. The rise has continued during the present week, and will leave trace on the index number when published. The turnover figure is also increasing in consequence of the lively interest taken by the speculative public. Rumours were current of a plan for the stabilisation of the lira at about 125.66 lire to £ sterling, but these were silenced by a trenchant *communiqué* in the *Popolo d'Italia*, which characterised them as "imbecilli". A more concrete justification for the rise in the textile group was the agreement between the Courtauld group, the Vereinigte Glanzstoff, and the Snia-Viscosa for the regulation of the artificial silk market. Prices of the Snia-Viscosa shares, which had sunk to 120.67 lire at December 31, 1926, jumped up to-day to the 220 level. The rise of the Snia was the spark from which all the market took suddenly fire.

The problem of the lira remains the crux of the industrial and general economic situation. Deputation after deputation is said to be waiting on the Premier and the Finance Minister, but the uniform reply is that the Government remains bent on its revaluation policy, which is beginning to have a marked effect on wholesale prices. The index number of the Milan Chamber of Commerce (basis 1913=100) has moved as follows:

	Aug. 31, 1926	Sept. 30, 1926	Oct. 31, 1926	Nov. 30, 1926	Dec. 31, 1926	Jan. 22, 1927
Vegetable foods	755.2	727.2	688.2	688.9	690.7	681.5
Animals	659.0	664.8	649.4	614.7	595.3	571.7
Textiles	732.7	701.4	608.1	572.4	544.0	553.2
Chemicals	629.3	621.8	589.7	566.8	557.0	549.8
Minerals and metals	708.6	708.6	720.0	744.3	667.9	609.6
Building and wood	685.3	684.9	683.1	684.4	677.4	661.3
Vegetables, miscellaneous	646.2	651.3	639.4	632.2	624.3	610.1
Industrial, miscellaneous	675.4	681.2	661.3	634.3	627.3	627.4
General index number	691.3	682.8	654.6	641.4	618.6	602.4

The effect of the decrease was felt most by the textile industry, where the crisis is being met by a general reduction in working days to five and four per week. An interesting inquiry conducted by the Cotton Association elicited the fact that the percentage of losses on home sales of yarns was 0.15 per cent. in 1924, 0.17 in 1925, and 0.58 in 1926; on foreign market sales respectively 0.62, 0.74, and 0.83. The losses on home sales of cloth were 0.60 per cent. in 1924, 0.49 in 1925, and 0.70 in 1926; on foreign market sales respectively 0.87, 0.69, 0.99 per cent. The percentage of losses never reached 1 per cent., and can be met by common foresight on the part of the manufacturers. Their real concern is the unforeseen variations of prices.

The increase, however slight, in unemployment and the reduction in the number of hours and days worked in some industries had rendered obsolete the decree of June 30, 1926, by which manufacturers, traders, and agriculturists had been authorised to increase from eight to nine the hours of daily work of their employees. The decree was a part of the programme for the increase of production and revaluation of the lira, and much fuss was made about it in international labour circles. But it was never put into practice, and a decree of January, 11, 1927, forbids employers to take advantage of it unless duly recognised associations of employers and employed are in agreement as to the prolongation of the hours of work, and the regulations concerning it; and unless the agreement has been approved by the Inspector of Labour or the Minister for National Economy. The supplementary hours of work must be paid for at the special rate provided for by the decree of March 15, 1923.

At the date of writing the subscription lists of the new 5 per cent. consols are not yet closed; but presumably the yield will be about 3 billion lire. The Treasury received, on account of the loan, in November 276.5 million lire, and in December 672.0 million lire, a total of 948.5 million lire. Various instalments are due in the course of 1927. The current account of the Treasury at the Bank of Italy, which was reduced from 2.669 millions at the end of February, 1926, to 1,321.0 in July, 1,220.0 in August, and, owing to reimbursements of Treasury bills, was running dangerously low at 632.1 at the end of September, and was converted into an overdraft of 129.7 at the end of October, and of 697.7 millions at the end of November, is now, thanks to the yield of the loan and good tax revenue, in credit. At December 31, 1926, there was a balance of 95.6 million lire. If public expenditure is rigidly controlled, there is no risk that the critical situation of October and November will again occur, after the consolidation of the Treasury

bills. In the six months from July to December effective revenue was 9,630.3 million lire, against effective expenditure of 9,005.7 million lire, with a cash surplus of 624.6 million lire.

147.

ITALY

FOREIGN TRADE. — Excluding precious metals and reparations, figures for 1926 and previous years were as follows:

(In Millions of Lire)			
	Imports	Exports	Excess of Imports Over Exports
1909-13	3,419	2,212	1,207
1920	26,822	11,744	15,048
1921	16,926	8,279	8,747
1922	15,765	9,302	6,463
1923	17,189	11,086	6,103
1924	19,388	14,318	5,070
1925	26,173	18,276	7,897
1925 (Jan. to Nov.)	23,710	16,497	7,213
1926 (" ")	23,694	16,750	6,944

From 1922 onwards there was an interrupted increase in total and *per capita* volume of trade until 1926, when the figures became almost stationary. In the face of the convulsive movement of the lira (the official exchange of gold going from 478 per cent. in January to 586 in August and then back again to 436 in December) the steadiness of foreign trade is very remarkable. The adverse commercial balance for 1926 can be estimated at a somewhat lower level than in the preceding year.

CROPS. — Production was higher than the pre-war and post-war averages, though inferior to 1925:

147. February 12, 1927, pp. 15-16. The article, unsigned, was published in the supplement: *The Economist. Commercial history & Review of 1926*. Its attribution to Luigi Einaudi is certain because the original manuscript, without date but entitled "Commercial history. Italy", is kept in the Einaudi archives.

(In Thousands of Tons)

	Average 1909-13	Average 1916-25	1925	1926
Wheat	4,989.8	4,916.4	6,554.8	6,015.0
Maize	2,548.6	2,293.7	2,692.4	2,795.7
Rice	475.0	524.6	629.4	665.6
Grapes	7,096.6	6,263.9	7,143.4	5,974.9
Cocoons	40.8	35.2	40.6	41.3
Potatoes	1,654.8	1,745.7	2,187.7	2,311.0
Hemp	83.5	84.7	123.9	121.2

Grapes were an exception to the general rule owing to the ravages of the phylloxera and the time taken by the replanting of vines.

INDUSTRY. — Imports of coal increased in the first eleven months, from 7,833,975 tons in 1925 to 8,593,068 tons in 1926, in spite of the British strike. The consumption of electrical energy increased in the first nine months from 4,789 millions ettowatt-hours to 5,340 ettowatt-hours. Production of pig-iron, which progressed unchecked from 6,132.1 tons in 1921 to 48,179.9 in 1925, increased further to 48,833.9 in the first eleven months of 1926. Steel production, however, after rapidly rising from 70,043.3 tons in 1921 to 178,553.2 in 1925, reached only 149,368.4 tons in the first eleven months of 1926. Raw cotton imports (eleven months) decreased from 2,243,122 tons in 1925 to 2,196,000 tons in 1926; unwashed wool imports increased from 267,286 to 384,670 tons; washed wool from 40,619 to 50,223; raw jute decreased from 434,861 to 396,083. Artificial silk exports increased in the first eleven months from 7,950.8 tons to 10,088.8 tons. Goods carried by the State railways in the first six months were 32.5 million tons, against 31.1 millions in the corresponding period of 1925. The ships launched increased from 60,000 dead-weight tons in 1923 to 74,000 in 1924, 126,000 in 1925, and 125,426 in the first nine months of 1926. The number of unemployed reached a minimum of 79,678 in July and a maximum of 148,821 in November. The average monthly number of declared failures, which was 617 in 1913 and decreased rapidly during the war to a minimum of 47 in 1918, increased to 53 in 1920, 149 in 1921, 305 in 1922, 474 in 1923, 607 in 1924, 602 in 1925, and 655 in 1926. The revaluation of the lira does not seem, as yet, to have had any remarkable effect.

PRICES AND WAGES. — Various indices are shown. (See table at p. 400).

SAVINGS. — The increase in the cost of living is perhaps the principal cause of the stagnation of the deposits in the Postal Saving State Bank, which were 10,342.3 million lire at December 31, 1926, against 10,617.6 million at the end of 1925.

MONEY AND STOCKS. — The official rate of discount remained fixed at 7

	Bank & State Notes Issued (End of the year)	Paper Price of Gold (Average)	Wholesale Prices		Purchasing Power of the Lira	Cost of Living Basis 1914	Wages
			In Paper Lira	In Gold Lira			
1913	100	100	100	100	100	100	100
1922	729	409	529.3	129.4	18.84	488	512
1923	707	421.2	535.8	127.2	18.67	487	477
1924	737	443.4	553.5	124.8	18.08	512	480
1925	771	485.8	646.2	133.0	15.50	598	534
1926	717	500.7	654.4	131.4	15.29	654	571

per cent.; the prolongation rates for 5 per cent. Consols decreased from 7.50 per cent. in December, 1925, to 5.50 in July, 1926, increasing again to 6.50 in December; while the rate for industrial securities remained more or less fluctuating all the year round between 7 and 9 per cent., with a tendency for money to become more abundant toward the end of the year owing to the great decrease of Stock Exchange commitments. From a Stock Exchange point of view, the past year was bad. According to the Bachi index number (basis 1913=100) the general index number was 530.8 at the end of 1925. It fluctuated somewhat wildly between January and August, 1926, then sloping down uninterrupted and touching bottom at the end of December at 357.3.

PUBLIC FINANCE. — The surplus of 417.2 million lire in the fiscal year from July, 1924, to June, 1925, was followed by a new surplus of 2,268.4 million lire in the fiscal year 1925-26. Public internal debts, after having risen to 95.144 million lire at June 30, 1923, decreased steadily to 90.847 at June 30, 1925, and to 84.485 million lire at December 31, 1926.

148.

ITALY

STOCK EXCHANGE — CREDIT RESTRICTION POLICY — UNEMPLOYMENT —
BANKRUPTCIES — IMPORTS AND EXPORTS

From our Correspondent

Turin, March 4

The recovery of the stock market which was noted in my last letter con-

148. March 19, 1927, p. 586. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

tinued its course after January 22nd, but in February the rate of progress somewhat abated, as may be seen from the index number of the Milan Chamber of Commerce (basis December, 1925=100):

	Jan. 30 1926	June 26, 1926	July 30 1926	Dec. 31, 1926	Jan. 22, 1927	Jan. 29, 1927	Feb. 26, 1927
Bank (3)	97.3	101.8	105.5	73.5	85.2	93.9	98.3
Navigation and transport (3)	89.3	90.9	98.3	74.0	77.2	82.5	85.0
Textiles (7)	91.2	70.3	69.4	33.5	45.9	56.2	51.8
Minerals, iron & steel, en- gineering (6)	93.9	88.7	95.1	62.2	72.8	81.1	86.1
Electrical (7)	92.3	87.1	92.8	70.5	77.1	82.7	87.1
Real estate (5)	91.7	94.0	100.5	60.3	70.0	75.8	77.1
Food and miscellaneous (4)	88.2	90.4	101.3	66.6	73.3	77.8	87.4
Total (35)	92.5	87.5	92.2	62.6	71.4	78.7	81.9
Turnover	—	—	—	3.49	5.73	8.19	5.38

The turnover figure is the number of securities dealt in during the week preceding the date put at the head of the column, per thousand of the outstanding number of shares.

It will, perhaps, be useful to draw attention again to a feature of our monetary situation which I have previously discussed (see *Economist*, July 10, 1926). This situation was also the subject of some comments in your correspondence columns and in Mr Gregory's book on "The First Year of the Gold Standard". The gist of my contention then was that so long as commercial discount figures increased a decrease in the note issue did not matter, because the bank was obliged to draw from other resources the wherewithal to increase discounts, for instance, by disposing of the big sums held from time to time by the Treasury in current account at the bank. There was always the danger that if the Treasury decreased their deposits the bank would be obliged again to increase the note issue. The following table shows how things developed before and after the new monetary policy announcement in the Pesaro speech, August, 1926 (in millions lire). (See table at p. 402).

The figures seem to countenance the thesis of a distinct change of policy since the middle of 1926. Until April, 1926, the sums placed by the bank of issue at the disposal of trade and industry by means of discounts and advances went on, more or less regularly increasing, this being made possible by the reimbursements received from the Treasury of notes advanced to it during the war period. Between 1920 and 1925 the bank reduced or increased the note issue according to the increase or diminution

End of:	Principal Resources					Commercial Investments		
	Note Issue	Current Accounts	Deposits		Total	Discounts	Advances	Total
			Private	State				
1920	19,732	1,689	875	325	22,621	4,256	2,818	7,074
1921	19,209	1,981	931	1,047	23,168	5,181	4,839	10,020
1922	18,012	1,194	1,231	582	21,019	6,178	3,105	9,284
1923	17,247	1,263	1,191	2,011	21,712	7,997	3,388	11,385
1924	18,114	1,717	1,191	808	21,830	9,191	3,158	12,349
1925	19,350	1,284	1,001	1,550	23,185	10,042	3,915	13,957
1926-April	17,899	1,111	1,016	2,630	22,656	9,942	3,697	13,639
August	18,001	804	1,287	1,220	21,312	9,298	2,279	12,077
September ..	18,332	1,061	1,342	632	21,367	8,734	3,164	11,898
October	18,165	863	1,816	- 130	20,714	8,580	2,905	11,485
November ..	18,207	813	2,032	- 688	20,364	8,569	2,215	10,784
December ...	18,340	801	1,431	96	20,668	8,016	2,684	10,700
1927-January	17,997	790	1,856	51	20,691	7,995	2,494	10,470

of current accounts, debts, and private or public deposits. A contraction of State deposits always threatened an increase of note issue, because it was not thought possible to restrict discounts or advances.

After April, 1926, a marked contraction of public deposits took place, and at the end of October and November there appeared an overdraft against the Treasury current account, and even in December and January the public deposits were insignificant. The reversal was the obvious consequence of the big reimbursements of maturing Treasury bills, and was, by the way, the cause of the consolidating decree with which the calling-up process was stopped. The decrease of "other" resources would have called, had the past rule been followed, for an increase of the note issue. However, the note issue in January, 1927, stands at the same level as in April, 1926, and we see for the first time a vigorous contraction of discounts and advances, both decreasing from 13.689 to 10.490 millions lire. This is truly deflation, which should bear fruit in due time.

It was natural that the credit restriction should produce some discontent. Increasing attention is devoted to figures of unemployment (total unemployed increasing from 79,678 in July to 181,493 in December), and of bankruptcies (monthly average 652 in 1926, against 602 in 1925), but neither figure appears so far very threatening. Monthly bankruptcies were 617 in 1913, so that the increase barely corresponds to the increase of population and of the territory of the State.

Foreign commerce statistics for 1926 closed with an excess of imports of 7,200.6 million lire, as against 7,926.2 in 1925. The only one of the eight

categories of the official statistics in which Italy has a favourable balance is "textiles", where, mainly thanks to the low cotton prices, the excess of exports increased from 1,780.9 to 2,277.7 millions lire. Imports increased in 1926 against 1925 in quantity by 1,708,825 tons (from 22,681,219 tons in 1925 to 23,390,044 tons in 1926), and decreased in value by 329.3 millions lire (from 26,200.5 to 25,871.1), so that we have been able to buy more goods at a lower price than in the preceding years. On the contrary the quantity of exports decreased by 564,724 tons (from 4,786,302 tons in 1925 to 4,221,577 in 1926), while the value of exports increased by 396.3 millions lire (from 18,274.3 in 1925 to 18,670.5 in 1926). Thus we sold a smaller volume of goods at higher average prices; in a general way it may be said that the export trade was not so badly hampered as might have been feared, first by the vagaries of the exchanges and then by the credit restriction policy.

149.

ITALY

BANKERS' SPEECHES – THE BANK OF ITALY – STABILISATION OF THE LIRA –
VELOCITY OF CIRCULATION – FOREIGN LOANS*From our Correspondent*

Turin, April 15

In his speech at the meeting of the Bank of Italy, Signor Stringher, the Director-General, drew attention to the increase in the current private deposits at the Bank of Italy, which from an average of 754.3 million lire in 1925 rose to 1,164.6 millions in 1926, mainly owing to a new departure, which was adopted provisionally as from September 30, but which will, perhaps, have far-reaching consequences for banking organisation in Italy. Until September, 1926, the Bank of Issue was not truly a central bank, for

149. April 16, 1927, pp. 808-809. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Bankers' speeches. A new departure of the Bank of Italy towards bankers's deposits. Statements about stabilisation of the lira. Velocity of circulation. Foreign loans and better exchanges", dated "Turin, April 1927", is kept in the Einaudi archives.

it lacked one of the fundamental characteristics of a central bank, namely, that of being the depository of the liquid funds of other commercial banks. Big commercial and savings banks did not deposit at the Bank of Italy, and consequently the Bank of Issue could not control the money market. The reason was that the Bank of Italy paid too low a rate of interest on deposits, with the result that other banks preferred to keep their funds in hard cash in their tills, or to buy short-dated Treasury bills or to make advances to stock exchange operators. With the disappearance of short-dated Treasury bills since the November consolidation, and inactivity on the stock exchanges, the banks were at a loss how to use liquid funds. The Bank of Italy then stepped in and announced that it would accept from certain banks, and in a limited number of cities, sight deposits at 5 per cent. interest. Special deposits were at once made of 695 million lire, increasing to 1,374 millions at November 30, and decreasing to 867.8 millions at December 31 owing to the usual end-of-the-year requirements. The new policy, if continued and enlarged to more numerous banks and places, will, perhaps, prove a good step toward the creation of a true central bank and a unified money market.

Signor Stringher dwelt in his speech only on past history, and is silent on future development. As to the effect on industry of the monetary deflation policy after August, 1926, he points out that a certain decrease of economic activity in the second half of the year, the contraction of the internal demand in the hope of still lower prices, the higher cost of banking accommodation, protraction of payments by commercial customers, instability of foreign exchanges, and striking variations of prices of raw materials make economic prospects uncertain. He hopes that the new year will be good for industry, inasmuch as the relations between Capital and Labour remain pacific, foreign loans are forthcoming, and commercial treaties with foreign countries favour exports. He urges industrialists to make strenuous efforts to reduce costs of production, and to eliminate bad investments. But he says nothing as to whether he thinks revalorisation or stabilisation the best means of obtaining economic recovery. Other bankers voice more openly the industrialists' desire for stable money. Signor Toeplitz, the Director-General of the "Banca Commerciale", points out that deflation will produce good results only if prices and costs can be reduced, and his remarks suggest that he hopes very much to see shortly the lira stabilised at a fixed point.

Signor Orsi, chairman of the "Credito Italiano", made in his speech an interesting comparison between the gold value of the average circulation

per inhabitant in several countries in 1913 and 1926. By gold value is meant the average paper circulation divided by the 1926 index of paper prices. While in Switzerland the average circulation per head was 83.67 gold francs in 1913 and 150.68 in 1926, in Belgium 143.74 and 156.20, and in France 145.79 and 180.85, Italy was the only member of the former Latin Union where the average circulation per head was reduced from 78.17 to 68.87 gold francs between 1913 and 1926. As Italy's requirements of circulating money cannot be less to-day than in 1913, the logical consequence would be either that prices must be reduced or that the quantity or velocity of circulation must be increased. This seems to be Orsi's conclusion; for he insists that the deflationist policy can and must be continued, provided that substitutes for money (cheques, circular cheques, postal accounts, clearing houses) can be made more and more use of. The recent appointment of a Treasury Committee to investigate and make proposals on methods of monetary payment, such as cheques, suggests that the Government also, while firm on the policy of gradual reduction of circulation, is alive to demands from banking and trade circles for an increased velocity of circulation.

The sharp fall in the foreign exchanges which has recently occurred, and which has brought the pound sterling from an average level of $112\frac{1}{4}$ for February to 101.70 on April 4th, is commented on in the following remarks from Signor Stringher's report: "The large offers to Italy, thanks to the increased prestige of her public finance and credit, of foreign loans, mainly from the United States, had, and continue to have, a favourable influence in the foreign exchange market. This is very helpful, provided always that we are careful to make a moderate use of them and to guard against future disturbance of our foreign payments balance". As Signor Stringher has always been, in his long banking career, very guarded in his words, we are perhaps justified in supposing that he looks with some misgiving to the time when interest and amortisation instalments on the present loans become due, and that, fearing future revulsions, he would prefer, if possible, methods of issuing loans which could not influence the foreign exchanges.

150.

ITALY'S LABOUR CHARTER

In the article which appears below an Italian correspondent analyses and describes the new "Labour Charter" announced by Signor Mussolini on April 21st. At the present moment, when Great Britain is rent with controversy over comparatively mild changes in trade union law, a study of the Italian "Charter" is of peculiarly topical interest. The declaration, as our correspondent describes it, is amazing in British eyes, and marks the peak of Signor Mussolini's effort to subjugate the entire life of the nation and of the individual to the control of the Fascist Party.

The most important of recent events in Italy was the promulgation, on April 21 (the day of the birth of Rome, which is the new public Labour festival), of the "Labour Charter" by the Great Council of the Fascism. The Charter was published afterwards in the Official Gazette, which publication, while not giving it the character of an Act, means that the Government is bound to implement it by Royal legislative decrees or to present to Parliament Bills enacting those sections of the Charter which have not yet been placed on the statute book. The Charter may be conveniently classified, for foreign readers, into three parts. First come all those sections which regulate night work, daily and yearly rest periods, methods of payment of wages, wages for overtime work, collective labour agreements, indemnification for dismissal, probationary periods, labour exchanges, prevention of accidents, accidents, maternity, unemployment, old age, &c., insurances, social services. In greater or lesser degree such regulations are becoming part and parcel of the social legislation of all civilised countries, and the Charter, though compressing them into a single solemn document, does not, therefore, in this respect contain anything very original.

From an historical point of view greater interest attaches to the sections laying down principles regarding the duties of the State, and the relations

150. May 14, 1927, pp. 1008-1009. The article, unsigned, was published in the section: "Leading Articles". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. The Labour Chart as a summary of social legislation, a statement of principles and organization of economic society. Criteriums for decisions on industrial conflicts. Preference granted to unemployed member of Fascist syndicates", dated "Turin, May 7, 1927", is kept in the Einaudi archives.

between classes, and between the State and society. Much speculation has centred around the philosophy of Fascism. Is it a reactionary capitalistic movement, or is it a sub-species of Bolshevism? Such are the questions frequently put all over the world by anxious politicians, social workers, and scientists. Fascist leaders have always been highly incensed by such characterisations. The statement of principles in the Labour Charter can be called the Social Creed of Fascism. "The Italian nation", says the Charter, "is a thing superior to individuals; Labour is a social duty, and only as such is protected by the State; economic production must strive for the good of individuals and the maximum development of national power; separate and opposite interests of employers and employed must be conciliated and subordinated to the superior interests of national production; to this end the professional syndicates of employers and employed are combined into corporations, and these are State organs; the Italian State, therefore, is a corporate State; private initiative is, according to the essence of the corporate State, the most powerful and useful means toward promoting production in the best interests of the nation; private organisation of production is, therefore, only a social function in the national interest, employers have the responsibility to the State of the direction of production; the direction of enterprises belongs to the responsible employers; but the employed, manual workers and intellectual alike, are active co-operators in economic enterprise; the State must intervene in economic production, by inspections, encouragements, and direct administration, only when private initiative is lacking or insufficient, or when such intervention is required by the public interest of the State". Probably students belonging to different schools of thought will label variously those essential principles of the corporate State. For present purposes the Charter can be defined, from the point of view of principles, as an effort to conciliate capital and labour under the supreme authority of the State, in the interest of the nation at large. What will be the outcome of the effort only time can tell.

Perhaps, however, the most interesting sections of the Charter are those which aim at giving a practical scope to general principles. The chain of reasonings and of practical deductions is very close: "Private initiative and labour are forces which must be guided and conciliated by the State in the interest of maximum production. But the State, and the Fascist State primarily, cannot recognise as legal organisations of employers and employed which aim at subverting it. Organisations are free, but only 'national' law-abiding organisations can be legally recognised; and only legally recognised organisations can represent their constituents before the State and the other organisations, or can negotiate collective agreements, bind-

ing for members and non-members alike; they alone can exact compulsory contributions from all members of the trade and craft. If the legally recognised syndicates are unable to come to an agreement they can delegate the negotiation of it to the corporation, *i.e.*, to a State body, representative of both social forces; and if they fail to delegate the solution of conflict to the corporation, the magistrate will step in, and after an attempt at conciliation, deliver a final binding judgment". What are the principles which must guide judges in giving their judgment in industrial conflicts? Thus replies the Labour Charter: "Wages must be related to normal exigencies of life, to what the production can bear, and to labour productivity. Statistics published by public bodies concerning the conditions of production and of labour, the situation of the money market and the variations of the standard of life of the employed classes will furnish criteria useful to the co-ordination of the interests of different categories and classes between themselves and the superior interest of production". The Italian Labour Charter thus abstains from stating a rigid rule to be applied invariably by judges, the rules being, instead, sufficiently elastic to admit variable interpretations of the specific cases of conflicts which will come before the judges. Both the traditional rules – standard of life and what industry can bear – are incorporated in the Charter. The standard of life aimed at is, indeed, a continuously improving one, for the Charter adds that legally recognised syndicates "are obliged to exercise a selective influence among workmen, so that their technical capacity and moral standard can be indefinitely increased". And here comes one of the more characteristic rules of the Charter: "Employers are obliged to select employed men through public labour exchanges established by recognised syndicates of employers and employed under State inspection. Employers are free to engage men among those inscribed in the labour exchange registers subject to the provision that preference must be granted, according to the date of inscription, to members of the Fascist Party or of the Fascist syndicates, which means legally recognised syndicates". Members of the old General Confederation of Labour, such as Signor Rigola, objected that the privilege granted to members of the Fascist Party or Fascist syndicates means, in time of unemployment, starvation for followers of Socialist, Catholic, or Liberal creeds; and the objection appears to have been echoed by M. Thomas, the general secretary of the International Labour Office at Geneva, in an interview with an Italian journalist. The reply was that in a compact legislative system, where syndicates are public bodies, preference must be granted to men fully conscious of their duties toward the State and the nation as against those who aim to subvert the established order.

Therefore, it must be added, the preference applies obviously not only the manual workers, but also to brain workers, *i.e.*, to technical, administrative, and clerical staffs.

The Great Council of Fascism in the preamble to the Charter begged "to draw to it the attention not only of the Italian people, but of all the students of social problems in the world, because only the system of the Charter can reconcile the opposite social classes, making them truly productive, and only this same system can raise, morally and materially, the level of the working classes, as against the impotent demagogic socialistic ideals". The challenge thrown out by this Declaration of Principles will probably be taken up by representatives of liberal and socialistic tendencies, and M. Thomas foreshadowed an interesting discussion on the occasion when the problem of syndicalist freedom comes before the annual assembly of Geneva. To such a discussion no objection was raised by the Italian Press, provided that it remains academic, and its conclusions are not binding on the adherent States. Such a debate will, indeed, be highly interesting, for the Italian representatives are bent on proving the virtues of an economic organisation, in which all social forces are compulsorily guided by the State toward a common, and in obedience to a common ideal.

151.

ITALY

MUSSOLINI'S POLICY — POPULATION AND THE LIRA — STOCK EXCHANGES —
READJUSTING THE PRICE LEVEL — THE CAMPAIGN FOR REDUCTION OF PRICES

From our Correspondent

Turin, June 1

From the economic point of view, Signor Mussolini's speech in the Chamber of Deputies, May 26th, is noteworthy for his strong utterances about the population problem and the lira policy. The tax on bachelors recently enacted was an index of the anti-Malthusian spirit of the Premier.

151. June 11, 1927, pp. 1236-1237. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Economics of Premier's speech: population and lira policy. Stock exchanges. Restriction of credit and purchases of gold. Rise in the internal level of gold prices above the international level. The campaign for reduction of prices", dated "Turin, May 30, 1927", is kept in the Einaudi archives.

The tax was not put for the sake of a yield of from 40 to 50 millions lire, it is intended to serve as a deterrent from individual egotism; if it should prove inefficient, a further tax on childless families is contemplated. The Premier wants for Italy a population of not less than 60 millions in 1950; the present 40 millions are too few in comparison with 90 million Germans, 200 million Slavs, 40 million Frenchmen, backed by 90 millions living in French colonies, 46 million Britishers, with their 450 million inhabitants of the Dominions and of the Colonies. Therefore, he is greatly concerned about the decreasing number of births. The birth-rate is still at 27 per 1,000 inhabitants, against 16.7 in Great Britain, 17 in Sweden, 18 in France, 21 in Denmark, 19 in Norway, 20 in Germany; but in some regions the rate is much lower than the national average, and in the great cities of Northern Italy is increasing only in respect of immigrants. The natural excess of births over deaths increased the population of Genoa only by 168 inhabitants in 1926, of Milan of 22, while the Turin population decreased by 538. Therefore, Signor Mussolini is much against the industrialisation of Rome; only healthy industries – *i.e.*, those industries which are related to agriculture and sea – should be fostered; and he is not an enthusiast for the small agricultural property. Small proprietors, as the French experience shows, are fond of small families, and with “the two sons theory” it is not possible to start empires: Italy would, indeed, descend to the rank of a colony. How could 60 millions live in a country where life is difficult for the present 40 millions? Mussolini’s reply is that in 1815, when the Italian population was only 15 millions, it would have been deemed absurd that 40 millions could live with an immensely bettered standard of living.

The lira problem was discussed by the Premier in equally trenchant language. The pessimistic prophecies about the future of industry, the ruin of many concerns in consequence of the revaluation policy are, in his opinion, gross exaggerations. We must not compare the present level of 90 lire to the pound sterling with the maximum level of 150 lire reached in July and August, 1926, but with the average of the last four or five years, which was 120, or with the level existing at the date of the march on Rome, which was 105 to 110. The 10 or 15 points thus recovered are the very modest recognition of the progress from a huge State Budget deficit to a substantial surplus, of the end of paper inflation, and of a balanced account of international payments.

As to future monetary policy, the Premier has abstained from any binding statement: “On the 90 lire to the pound sterling level we shall remain during the period sufficient and necessary to the adaptation to the same level of all the economic forces”. But “shame to those economic factors

which rapidly adapted themselves to the devaluation process when the lire was rapidly tumbling and to-day seem unable to keep pace with the slow improvement of the revaluation policy". Economic circles interpreted these words to mean that the Government intends 1) to remain for a time at the 90-lire level, until costs, wages, prices, rents are adapted to it; 2) to proceed further to a lower level as soon as industry and trade are able to support its consequences.

The Stock Exchanges, which see in this policy a continuation for years of reduced dividends and perhaps of big losses, continue to be lifeless. Bachi's general index of shares (basis 100=December, 1913) marks the following extremes: – Lowest: 70, May, 1915; highest: 137.9, June 1919, during the post-war boom; lowest: 70.75, political instability; highest: 183.05, February, 1925, at the epoch of companies promotions and flight from the lira; lowest: 104.5, December, 1926, after the Pesaro speech, credit restrictions and revaluation of the lira. Since December the index number has changed as follows: – 120.4, January, 1927; 130.1, February; 122.5, March; and 123, April. In May the figure will probably be notably lower.

As to trade and industry, the improvement of foreign exchanges and the decrease of paper-prices has put them in a state of suspense, which makes them not over-anxious to require from the banks increased circulating capital. For the first time after many years the internal level of gold prices has become higher than the external level. From the bulletins of the State Central Statistical Institute I quote the following indexes of *gold* prices (basis 1913=100):

	Great Britain	United States	Germany	Italy
Average 1924	157.7	149.3	137.3	124.8
" 1925	153.8	159.2	141.6	133.0
" 1926	142.2	151.3	134.4	131.4
January, 1927	137.8	145.5	135.9	135.6
February, 1927	136.8	143.0	135.6	134.4
March, 1927	135.8	140.7	135.0	138.5
April, 1927	135.8	140.0	134.8	148.3
1 st week of May, 1927	134.7	140.1	136.1	148.3
2 nd " " " "	135.5	139.6	136.8	152.2

The premium on exports resulting from the lower level of Italian gold prices had practically disappeared at the beginning of the present year; during the first three months internal and external prices were more or less in equilibrium; in April the internal level moved against Italy. Foreign trade statistics do not disclose as yet any evil consequences from this changed relation of the two levels of prices. Exports in the first three months of 1927 diminished by 80.2 millions lire, but as imports decreased by 436.4 millions

lire the adverse commercial balance decreased for the same period from 2,601.7 to 2,245.4 millions lire.

A rearrangement, however, of internal costs of production is clearly due if Italian industry wishes to hold its hardly-won ground in foreign markets. Hence the campaign started by the Government, the corporations (employers' and employees' syndicates), and the Press for the reduction of salaries, wages, rents, and prices. The first step was made by the Government in announcing the abolition of the cost-of-living allowances for the higher classes of public employees, and a decrease for the lower classes. Syndicates representing industry, agriculture, and trade followed suit. House rents were diminished from 10 to 25 per cent., according to the proportional increases above the pre-war level. Retail traders were invited to reduce prices, and stringent measures, even exile to some small island, were threatened as penalties to offenders. In times of revaluation prices are bound to be reduced. What is highly interesting in the economic process of readjustment of prices which is going on at present in Italy is the dramatic intervention of the State, of other public bodies, of the newly organised public syndicates, and the united campaigning of the Press. Americans sometimes organise highly advertised drives on a gigantic scale toward a political or economic goal; but it is doubtful whether such a unified drive towards a lower level of costs or prices as is proceeding in Italy to-day has ever been organised anywhere.

152.

ITALY

REVALUATION POLICY AND THE STATE REVENUE – APPEALS FOR ECONOMY – TREASURY CASH FUNDS – INCREASING GOLD RESERVES

From our Correspondent

Turin, June 27

The unavoidable effects of the revaluation policy are a yet not making themselves much felt on the State Budget. Taking figures for cash incomings, I think a fair picture can be drawn thus (in millions lire):

152. July 2, 1927, pp. 22-23. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

	From July 1, 1925, to April 30, 1926	From July 1, 1926, to April 30, 1927	May, 1926	May, 1927
Ordinary effective revenue ..	17,183.4	16,446.9	1,260.1	1,249.9
Leading Items:				
Miscellaneous	2,004.5	701.5	47.0	83.9
Tobacco	2,477.8	2,664.7	263.7	257.1
Lotteries	351.1	355.1	45.5	33.4
Income-tax on interests, profits, salaries, fees	2,022.7	2,414.3	—	—
Registration tax	836.4	898.2	91.2	81.9
Sales tax	93.5	98.2	74.1	58.4
Customs	2,247.8	2,261.8	300.1	257.8

The big decrease in the total ordinary effective revenue is mainly due to the "miscellaneous" item, and, owing to the erratic nature of it, cannot be taken as a true index of a decreasing yield of public revenue. For the first ten months of the fiscal year, the most significant branches of revenue went on increasing, more or less rapidly. A change took place only in recent months. In May there was no revenue from income tax, as in Italy direct taxes are paid in alternate months. The most sensitive was the sales tax, which is obviously paid on a lower level of prices. Also customs, being fixed in gold lire and paid in paper lire at the current rate of exchange, are going down. Registration tax, i.e., tax paid on transfers of land, houses and all other immovable and movable goods, is bound to follow the decrease of paper prices. So-called voluntary taxes, such as tobacco and lotteries, are feeling the pinch of reduced margins of nominal incomes.

Signor Tumedei, general *rapporteur* of the Budget Commission of the Chamber of Deputies on the Finance Department Budget, draws attention to the progress of revenue and expenditure in the last four financial years, ending with 1925-26: Revenue: 17, 18, 19, 21 billions respectively; expenditure: 19.5, 18, 18 and 21. He is concerned about the increase of expenditure in the last year, and pleads for economies. Also Senator Mayer, on behalf of the Senate Budget Commission and *Verax*, a very high parliamentarian, in the *Nuova Antologia*, are making the same appeal for economies and urging the necessity of creating a sinking fund for redemption of public budget. It is true that internal public debt, which was 95,544 millions lire at June 30, 1923, has been reduced to 90,751 millions lire at May 31, 1927, and that the proportion of floating debt was decreased from 63.33 per cent. to 6.66 per cent. between the two dates. As the purchasing power of the paper lira in June, 1923, was very much the same as to-day —

18.54 in June, 1923, against 18.64 in May, 1927 – (the average purchasing power for 1913=100), the real burden of internal public debt cannot be said to have changed in the meantime in a different way from the nominal burden. Perhaps the fact that the purchasing power of the lira is not to-day very much different from what it was in 1922 and 1923, and is lower than in the middle of 1921, goes far to explain the ease with which the revenue of the State is keeping at a high level. If foreign exchanges were to better further and internal prices to fall to a parity with foreign prices, the position would change. Signor Tumedei was in his speech much concerned about the cash at the Treasury. There are different methods of valuing cash at the Treasury; perhaps the simplest being the figure of the sum credited to the Treasury by its banker, the Bank of Italy. After having grown to great heights in the spring of 1926, the variations were as follows (in millions lire):

	1926	1927
January	1,536.9	51.0
February	2,669.7	248.1
March	2,151.1	31.4
April	2,630.0	585.6
May	2,471.3	490.9
June	1,970.4	—
July	1,321.1	—
August	1,220.0	—
September	632.1	—
October	— 129.7	—
November	— 687.7	—
December	95.8	—

Surely a big credit at the Bank of Italy has lost the old additional meaning of potential circulation placed at the disposal of trade and industry. After the restriction policy the only purpose of the Treasury credit at the Bank of Italy is to enable the Treasury to satisfy all their requirements. Reimbursements of Treasury bills compelled the Treasury to have recourse to a bank overdraft. After consolidation of Treasury bills things mended, but the account still seems too low. It is true that the Treasury possess an undisclosed amount of foreign liquid securities, which Signor Volpi told Parliament he was able to sell against paper lire, if need be, for the regulation (against a fall) of the gold price of the lira. The Bank of Italy also possess huge reserves of gold and gold securities, having increased them from 1,946.6 million lire in July 31, 1926, to 2,824.9 at May 31, 1927. Treasury and Bank can thus always put themselves in funds by selling gold securities

reserves. They are, however, hardly able to sell inversely lire against gold: the Treasury because, however rich in gold, it is low in paper-lire cash; the Bank because it is forbidden to print notes against purchase of gold. It appears, therefore, that revaluation may go on indefinitely, as speculators are aware that the machine will not work both ways, but only in favour of paper lira; until something new happens to put a stop to the process. Industrialists, agriculturists and traders are fervently hoping that something will happen before long; as they lose orders, and are afraid to be obliged to stop production. At a meeting of representatives of agricultural interests, Signor Mussolini, while declaring that the revaluation policy is to be maintained, assured agriculturists, who were afraid of committing themselves to new obligations in the face of the falling prices (the price of wheat, for instance, having fallen from 2,100 to 1,200 lire per ton), that remissions of taxes were contemplated and a vast scheme of agricultural credit at a low rate of interest was being urged on banks. It is, however, premature to seek in statistics evidence of economic and social effects of falling prices. Not before next autumn will it be possible to draw a complete picture of the effects of the present monetary policy.

153.

ITALY

STABILITY OF THE LIRA – INTERNAL AND FOREIGN GOLD PRICES –
COST OF LIVING – RENTS – COMPULSORY ARBITRATION – TAXATION

From our Correspondent

Turin, August 4

The policy of the revaluation of the lira seems to have come to a halt. An official statement by the Finance Minister, followed by a more emphatic declaration from the Prime Minister, gave the assurance that the pound sterling exchange price will be "indefinitely" maintained in the neighbourhood of 90 lire. Industrial, agricultural and commercial circles would have

153. August 13, 1927, p. 289. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

perhaps preferred "definitely" or "permanently" to such a non-committal word as "indefinitely"; but they are nevertheless thankful for the maintenance of the 90 lire level in place of previous fluctuations and the fear of a continuous rise in the price of the lira with a consequent fall in wholesale prices.

In consequence of the pegging of the lira to the 90 lire level, gold prices, which were rising in Italy, much to the discomfort of the exporters, to a level higher than in foreign countries, experienced a setback in July. Owing to a slight rise in some gold countries and the combined results of the stabilisation of the lira and the continuous decreases of the paper-prices level the adverse gap which began in March is at present rapidly disappearing.

The cost of living is decreasing less rapidly than wholesale prices. From August, 1926, to June, 1927, the internally consumed goods' paper prices have diminished from 611.4 to 488.7, i.e., by 20 per cent. Probably the July index number will mark a more substantial decline in the cost of living owing to the drastic measures taken towards lowering the rents of houses. What may be called a universal system of rent fixing for old and new houses has been inaugurated. All rents of houses and apartments up to five rooms (kitchen, bath, entrance, &c., to be counted as one) must be lowered to four times the pre-war level; all rents of house and apartments from six to eight rooms must be reduced by 10 per cent. No rent even of sumptuous houses can be raised above the present level. Recalcitrant house owners can be, by administrative decision, sent to forced domicile (*confino*) or admonished. It is perhaps difficult for Britishers, who are protected by *habeas corpus*, to understand exactly what are the penalties of *confino* and of admonition. These mean that persons, who are not guilty of misdemeanour or crime punishable by ordinary judges, can, by an administrative body, be deemed men unfit for usual social intercourse, and as such can be sent to some distant place, usually to some small island around Sicily, for a term of two, three, or even five years. When not sent to forced domicile, people held as unfit can be admonished, and then they cannot leave their residence without authorisation of the police and must not be out of their houses between sundown and sunrise. In several cases such a penalty, which was heretofore limited to habitual criminals and recently to political offenders, was extended to house owners deemed guilty of exacting exorbitant rentals from their tenant.

The revaluation of the lira has given origin also to the first case of com-

pulsory arbitration. Raw rice, which in the past year was quoted at 1,260 lire per ton, and in March last at 1,200 lire, fell in June to 900, and even 750 later. After fruitless endeavours to secure reduction of wages by common consent, the National Fascist confederation of agriculturists (employers), called the National confederation of Fascist syndicates (employees) before the Court of Appeal of Rome, requesting that wages for the July campaign should be reduced from 17.10-19.50 lire per day to 14 lire. This was the first time in which the law for the prevention of conflicts between capital and labour was put into motion, and the award was awaited with great interest all over the country. The Court, however, recognising that there had been a severe reduction of prices, granted only a reduction of wages of 0.60 lire. The employees' federation claims to have offered the same reduction during the conciliation stage. While employers' counsels emphasised the argument of the non-capacity of agriculture to bear the burden of existing wages, the employees' side was very strong on the necessity that the cost of living should first decline before wages can be reduced. As a result the Court, however non-committal to an exclusive principle, gave judgment mainly on the cost-of-living basis. The decision will be compulsory for all employers and employees in that stage of rice cultivation which is called the *monda*, or destruction of bad vegetation.

In the Cabinet Council of August 1st several important tax reductions were decided upon for a total amount of 1,135 millions lire: 550 millions of taxes on incomes proper, 385 of taxes on transfer of goods and property, and 200 millions on railways freights, post and telegraph prices. Among the most important tax reductions may be mentioned the decrease from 10 to 7.5 per cent. of the rate of the tax on house incomes, and the increase from 25 to 33.33 per cent. of the grant for expenses on the gross rental of houses; the decrease from 10 to 7.5 per cent. of the tax on income of land-owners, and from 10 to 5, from 5 to 2.5, and from 16 to 8 per cent. of the income of the farming industry for cultivating land-owners, metayers, and tenant farmers respectively.

154.

ITALY

SINKING FUND FOR PUBLIC DEBT – IMPORTS AND EXPORTS FIGURES –
TOWARDS A NEW ECONOMIC EQUILIBRIUM*From our Correspondent*

Turin, September 2

Since the beginning of the summer recess the legislative activity of the Cabinet has not been conspicuous. A sinking fund for the amortisation of the public debt has been created, implementing and enforcing the method already adopted. Traditionally Italy always followed a system similar to that known in Great Britain as the *old sinking fund*. All Budget surpluses were automatically applied by the Treasury to the reduction of public debt, mainly of the floating debt. Now there has been created a body of Commissioners of the Public Debt who will receive: 1) Past Budget surpluses from 1924-25; 2) future surpluses; 3) a fixed allocation of 500 million lire each year as from 1926-27; 4) miscellaneous revenues. The securities bought will be cancelled, but the interest which the State would have had to pay on them will continue to be paid by the Treasury to the Commissioners, so increasing progressively the fixed allowance of 500 million lire.

The yield of the taxes on the transfer of movable and immovable wealth is steadily decreasing as a consequence of the revaluation of the lira and the reduction of prices – 298.6 million lire in July, 1927, as against 392.7 in July, 1926. Also Customs and Excise, including the so-called “exchange additional”, gave smaller yields – 391.5 million lire, against 488.1. The yield from tobacco, salt, lotteries, and monopolies has decreased only from 258.7 to 241.2 million lire. But as the downward movement of prices appears to have stopped for a while, it is probable that the decrease in the public revenue will also stop.

The problem of how far the revaluation policy has reacted on international commerce is being keenly discussed in the public Press. Figures of exports in 1926 and 1927 are not strictly comparable. According to the

154. September 17, 1927, pp. 482-483. The article, unsigned, was published in the section: “Overseas Correspondence”. Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

State Central Institute of Statistics we must add 15 per cent. to the export figures from July 1, 1921, to November 30, 1926. If we follow this official advice we obtain the following results for the first seven months of the year (in millions lire):

	1926 January to July	1927 January to July	Decrease %
Imports	16,311.2	13,334.0	18.3
Exports	11,275.7	9,125.5	19.1
Excess of imports	5,035.5	4,408.5	16.5

The decrease in the paper lire figures of foreign commerce is evenly distributed between exports and imports. If we translate the paper lire figures into gold lire at the average exchange rate of 5.03 paper lire to one gold lira for the first seven months of 1926 and 3.95 for the first seven months of 1927, imports increased from 3,242.8 million gold lire in the first seven months of 1926 to 3,325 millions in the corresponding period of 1927. Likewise exports increased from 2,241.7 to 2,310.2 million lire, the excess of imports remaining practically unchanged, moving only from 1,001.1 to 1,014.8 million lire. Nor is there much change in the quantity figures, import quantities increasing by 4 per cent. and export quantities by 6.6 per cent.

Statistics, therefore, do not reveal as yet a very pronounced state of crisis in consequence of the revaluation of the lira. Nor is it probable that we shall see in Italy spectacular figures of unemployed such as were or are usual in industrial countries such as the United States, Great Britain, or Germany during the revaluation or stabilisation period. Italy being, like France, as yet predominantly a country of small cultivating landowners, economic cycles are bound to work more smoothly here.

The real point of interest in the economic policy of Italy is the method adopted for reaching the new equilibrium of price, incomes, wages, public revenue, &c. In America, Great Britain, or Germany the Treasury and the central banks endeavoured to guide the economic mechanism through the gentle agency of the variations of the rate of discount and the sales or purchases of public securities. The Bank of Italy has not yet attained so predominating a position among other banks that it can direct the markets.

The true agency working for a new equilibrium is the idea of the "Corporate State". For about five years incomes, wages, prices, public revenue were regulated on the basis of about 120 lire for one pound sterling. A new equilibrium must be reached on the basis of 90 lire., *i.e.*, 25 per cent. lower. But employers are not free to react to the stimulus of decreasing wholesale

prices by corresponding decreases of wages, dismissal of workers, closing of factories. The Corporate State substitutes for the free reactions of the individuals the collective deliberations of the corporate representatives of various economic classes. Signor Rossoni, the general secretary of the Confederation of Fascist syndicates of employees, clearly described the system when he recently proposed to extend to retail prices the methods already employed for the reduction of house rents. Primarily it is the duty of the interested confederations to see what is the "just" reduction to be enforced in the various industries or trades. If these reductions are not enforced by individuals the State is to declare them compulsory and enforceable by law. Finally, if some individuals are recalcitrant, they must be punished by prison, exile, and so on. "If", says Signor Rossoni in *Il Lavoro d'Italia* (August 30th), "somebody endeavoured to violate the law and elude the decreed price scale, the remedy would be deportation, prison, or, for traders, the discontinuance of the trading licence, viz., the compulsory closure of the shop". This same method is to be observed in industry. Agreements between syndicates of employers and employees – and only one Fascist syndicate exists in each industry – and, if these are wanting, Court judgments declare what is the reduction to be enforced in wages. But employers are not free to close the factory, even if at that level of wages production is not remunerative; they can reduce the days worked per week, but not dismiss workers.

Only time will show what economic reactions will follow from the compulsory working of this plan. A recent article by Signor Arnaldo Mussolini, brother of the Premier, in the *Popolo d'Italia*, seemed to suggest that the first reaction is the hesitancy of capitalists when considering the opportunity of employing their savings in industry. Really there is not much liquid capital lying idle at present. Figures of deposits in saving and ordinary banks are stationary, excepting only the deposits of the ordinary banks at the Bank of Italy, which increased from 1,467.9 millions lire on July 31, 1926, to 2,587.4 on July 31, 1927. This is a new development arising from the consolidation of Treasury bills. Ordinary banks which previously invested their liquid funds in Treasury bills are to-day depositing them at 5 per cent. interest at the Bank of Italy. If these deposits were not forthcoming the Bank of Italy would be obliged to curtail its discounts and advances or to increase the note issue.

155.

ITALY

CREDIT TO AGRICULTURE – REDUCTION OF DEPOSIT AND DISCOUNT RATES –
CREDIT RESTRICTIONS – INCREASE IN GOLD RESERVES –
POSSIBLE STABILISATION LEVEL

From our Correspondent

Turin, October 10

The credit situation was debated in the Press during September, especially as it affects agriculture, where the price slump in cereals, rice, and cattle is greatly distressing farmers. Meetings were held in Turin and Rome between representatives of Real Estate Loans Bank (Istituti di Credito Fondiario), Savings Banks, and other public credit bodies with the object of creating funds for promoting agricultural improvements and giving short credit to farmers after the harvest. Farmers complain of being obliged to undersell their products as soon as harvested to pay expenses, taxes, and current debt, and hope that, if they are granted liberal credit at low rates, they will be able to postpone their sales and thus obtain better prices. It is interesting to observe, however, that they prefer short credit to long amortisation (30 years) loans, fearing, as Minister Belluzzo observed, obligations in fixed amounts of lire which may, over a long period, change greatly in value. To overcome these fears, and to encourage agricultural improvements, the State grant aid up to 2.50 per cent. towards payments of interest on loans mortgaged on land, and applied to the increase of production. These loans should be financed from sale of long-dated securities, or from deposits of savings banks; not from current bank deposits. In the field of ordinary banking there must be plenty of funds, as the big four banks have announced another reduction from October 1st of the rate of interest from 4.50 to 3.50 per cent. on sight deposits, from 5.50 to 5 per cent. on three months' deposits, and from 6 to 5.50 on deposits of longer term. Discount rates have also been reduced from 7 to 6.50 per cent. The maintenance of the official rate of discount at 7 per cent. may, however,

155. October 22, 1927, pp. 698-699. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

suggest that the restrictive credit policy of the Bank of Italy is unchanged. The following table, abstracted from page 602 of the September Official Bulletin of the Central Statistical Institute, seems to lend colour to the suggestion. For clearness and brevity I have left out figures of State notes (5 to 10 lire), decreased from a maximum of 2,427.7 millions lire (December 31, 1923) to a minimum of 1,117 millions lire (August 30, 1927), but partly counterbalanced by the introduction of new silver coins for 5 and 10 lire; of the gold deposited in foreign countries, and of the silver coins, as being earmarked for special uses:

(Millions of Lire)

	Notes	Sight Debts and Private Deposits	Public Deposits	Discounts and Advances	Gold in Italy	Gold Credits in Foreign Countries &c.
December 31, 1914	2,936.0	701.7	196.3	1,203.9	1,396.8	211.2
" 1922	18,012.0	2,425.3	582.4	9,284.1	1,125.8	380.6
" 1923	17,246.6	2,454.1	2,011.2	11,384.3	1,117.6	185.9
" 1925	19,349.6	2,285.4	1,550.2	13,956.6	1,133.8	363.4
May 31, 1926	17,724.2	2,243.3	2,471.3	13,671.5	1,135.1	309.0
July 30, 1926	18,001.5	2,091.1	1,220.0	12,077.5	1,136.1	287.6
December 31, 1926	18,340.1	2,232.4	95.8	10,699.7	1,143.7	810.0
May 31, 1927	17,442.9	2,540.8	490.9	9,459.8	1,163.7	1,145.3
August 30, 1927	19,780.9	3,233.1	426.3	8,484.2	1,172.0	1,2164

The obvious and the most interesting deduction from the above figures is that the change which is going on in Italy at the present is not so much due to circulation as to credit deflation. The circulation proper (notes issued by the three issue banks and now by the Bank of Italy) is lower than the high-water mark of December 31, 1925; but it is not lower than in May, 1926, and December, 1923, and approximates the average of the last five years. The "potential" circulation — *i.e.*, the private and public deposits, which the Bank of Italy may be obliged to reimburse at sight, being in that case forced to issue new notes — is less than at the maximum of December, 1923, and May, 1926, but is higher to-day than at any moment since June, 1926. The most interesting change to be found on the assets side of the Bank of Italy balance-sheet. There is a big continuous decrease in the amount of discounts and advances, which to-day are 5,500 millions lire less than at the end of December, 1925. Whether the credit deflation is a cause or a consequence of the improved foreign exchanges is something akin to the problem which of the two, the egg or the hen, was the first. Probably, at the beginning, there was some credit deflation; then came the improve-

ment in the foreign exchanges, and, in their turn, better foreign exchanges reduced the need of circulating capital in industry and trade and of recourse to the Bank of Italy's discounts. As, however, on the liability side there was not any decrease after August 30, 1926, there must have been found a new investment in place of the greatly decreased discount and advances. For the new investment you must look at the gold in Italy and gold credits in foreign countries' figures. These are not, as other figures, in paper lire, but in gold lire. Therefore the increase between August, 1926, and August, 1927, of 35.9 million lire in the gold holding and of 928.8 million lire in foreign gold credits (sight or short-dated securities or gold deposits in foreign places), total 964.7 millions gold lire, corresponding at the present rate of exchange to about 3,500 millions paper lire. If we may trust a subtle interpretation of Signor Mazzucchelli in the last number of the *Rivista Bancaria* (Milan), the Bank of Italy possesses, in addition to the above gold coin and bills reserve, another reserve hidden under the description of "miscellaneous debtors", corresponding to about 1,500 millions paper lire. Bank of issue figures are always difficult of interpretation, as the secretiveness of the Bank of England directors proves; but one may feel on sure ground in suggesting that what happened was partly this: — Big Italian manufacturing concerns particularly public utilities, raised gold loans in the United States, and were thus enabled, by the cession of the gold proceeds of the loans to the Bank of Italy, to reduce their overdrafts here, so that figures of discounts and advances of the issue bank could greatly diminish without havoc. This is a partial interpretation, because about 450 millions gold lire of the increase in foreign gold credits has come, not from purchases of the gold proceeds of private concerns' loans, but from the cession of the Morgan State loan of 90 millions dollars. The outcome is that the Bank of Italy is at present in a very strong situation, because against an actual and potential circulation of 21,440.3 paper lire she holds a gold and gold bills reserve of 2,388.4 millions gold lire, equivalent, including the 1,000 millions paper lire of hidden reserve, at the present rate of exchange, to 9,600 millions paper lire — *i.e.*, to 44 per cent. of total banking circulation. If we note that since the compulsory consolidation of last November, no short-dated Treasury bills have been outstanding, we can conclude that Italy could, if she wished, legally stabilise the lira at the present level of 90 lire to the pound sterling.

156.

ITALY

THE STOCK EXCHANGE SITUATION – THE TREND OF QUOTATIONS

From our Correspondent

Turin, November 15

For about four months there has been an upward tendency in the stock markets. The weekly index of the Milan Chamber of Commerce (whose basis is December, 1925, = 100) rose in February to 81.92; but as the rise was artificial and the fear of the revaluation crisis remained, quotations collapsed again, and fell continuously to the minimum of 57.63 at June 25. After this date the rise has been continuous: 64.06 at July 29th, 67.06 at August 26th, 71.92 at September 23rd, 76.92 at October 29th, 77.57 at November 5th. Whether the present level of dividend-bearing securities is in equilibrium with the purchasing power of the lira is a much-debated problem. According to the Bachi index number, whose basis is December, 1913, the present level in paper lire is only about 20 per cent. higher than the December, 1913, level, which was practically in gold lire. As the paper lira had, according to the Milan Chamber of Commerce, at November 1, 1927, an internal purchasing power of 20.60 per cent. of the average purchasing power for 1913, the prices of securities, if they could have kept at the same level as the price of commodities in general, should have risen between December, 1913, and November, 1927, from 100 to 485, instead of from 100 to 120. There are several reasons for the much lower level of security prices. In the first place, securities in 1927 are very different from those of 1913. Almost all companies have increased their capital, and new issues were obviously made in depreciating paper lire. Complicated calculations would have to be made to reduce all issues, old and new, to a common denominator according to the value of the lira at the time of issue. And the problem would be hopelessly insoluble were we to take account also of new and old, open or hidden reserves, issues of free shares, and so on. It can be said in general that the present level of securities must be *less* than 485 according to the relative weight of new issues made in de-

156. December 3, 1927, p. 986. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

preciated paper. But there must be other concurrent causes of the big difference between 485 (commodity level) and 120 (securities level). If new issues were the only cause of the low level of securities, the shares of the companies who have not increased their capital should have been exempt from the depressing influence above described, and their quotations should be between four and five times the pre-war quotations. Within limits the facts do tally with these abstract deductions.

Depreciation of the lira would not of itself have been sufficient to push up quotations even in industries not specially hit by the peace. Depreciation of money can only increase capital prices of securities if the net yield of invested capital is increasing. Sometimes, as in real estate and electricity companies, the yield cannot rise in proportion to the monetary depreciation owing to legal restrictions. In other cases one or two big failures, such as that of the Banca Italiana di Sconto, bring down the whole group. Those groups have fared better which are new, such as artificial silk, or which were more pushful in conquering markets (motor-car) or in utilising old cheap plants (cotton).

157.

ITALY

INVESTMENT UNCERTAINTY – DEFLATION – UNEMPLOYMENT –
INTERNATIONAL TRADE – AWAITING STABILISATION

From our Correspondent

Turin, December 18

At the higher level reached after the bottom prices touched in June, the Bourses have relapsed into inaction, and the public cannot be persuaded to buy securities at all. Transactions are purely professional, taking place between operators who try to recoup office expenses and get a small profit by exchanging daily a few securities between themselves. Where new savings are being hidden is a mystery. Direct investments in building are absolutely at a standstill, inasmuch as the much-reduced exemption from taxes and

157. December 24, 1927, pp. 1146-1147. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

new rent restrictions to four times the pre-war level make building unprofitable. Uncertainty about future prices of agricultural products has also suspended activity in the land market, and made agriculturists hesitate before permanently investing in land improvements. Net investments in joint-stock companies in the first 10 months of 1927 totalled 1,627.1 millions lire, against 3,937.6 for the whole of 1926, and 8,062.7 for 1925. Money should therefore be accumulating in the bank coffers, waiting for the end of the revaluation crisis and more favourable opportunity of investment. It does not appear, however, that the accumulation of new savings is going on in an appreciable way. Deposits of the ordinary savings banks increased from the low-water mark of 12,751.6 millions lire in February, 1927, to 13,363.8 millions lire at the end of September, and Signor Belluzzo recently announced further increases of 72 millions in October and 158 millions in November; but already in September 1926 the figure was 13,069.2 millions lire, so that the increase is not very big. Statistics of postal savings, which are the second next place for deposits of savings in Italy, only take us up to May, 1927, when they had dropped to 9,840.6 millions lire from the highest figure of 10,598.1 reached in September, 1926. Deposits in ordinary banks and other credit institutions are stationary, and are, moreover, not complete, as ordinary banks do not consider sums received in current account as deposits, but put them under "Creditors" item. Probably the most representative figure in this field is the deposit figure of the Bank of Italy, the only one which has greatly expanded in past year: from 1,341.6 millions lire in September, 1926, to 2,473.5 in October, 1927. That is truly illuminating, because the increase is due to sums which the ordinary banks cannot invest, for lack of demand, in discounts and advances to trade and industry, and therefore deposit temporarily at the Bank of Italy.

The feature of the moment is that new savings are not forthcoming, but old savings are superabundant, owing to the reduced requirements of trade and industry during the deflationist process. Perhaps it is a great achievement that savings are nominally stationary; which means that between August, 1926, and December, 1927, they increased 40 per cent. in purchasing power. So great would that achievement be that we almost ought to despair of attaining it, because it would amount to saying that Italy would have surmounted the revaluation crisis not only without loss, but with a big increase in its circulation (bank and saving deposits) capital. Such a result would have to have been obtained in spite of the almost overwhelming difficulties against which industry and agriculture must struggle: 1) Wages cannot be lowered in proportion to the reduction of selling prices of the

product of industry, the reduction in wages being only 10 to 20 per cent., against 30 per cent. for prices; 2) the incidence of taxes, which, according to a recent report of Senator Mayer to the Senate, increased from 13 per cent. of the national income in 1913-14 to 20 per cent. in 1925-26; 3) the incidence of debts, on which interest and amortisation must be paid in appreciated money. In the face of such obstacles it is a wonder how the unemployment figure is kept low; wholly unemployed were 305,930 at the end of September, 1927, against 89,434 at the end of September, 1926; partially unemployed 133,568, against 14,519. There is a big absolute increase, but not so formidable as it might have been. Some explanation can be found in the efforts which employers are making to keep men employed at least for a part of the week, a practice which obviously cannot continue for long, because it increases the pressure of general fixed expenses on costs of production.

How industry has fared, during so trying a period, against international competition cannot as yet be exactly measured. For the first ten months of the year exports amounted to 12,775 million lire, against (after allowing for the 15 per cent. increase for 1926 for the sake of comparability of figures) 17,287 million lire in 1926, a decrease of 26 per cent., roughly corresponding to the lowering of the prices level. The total weight of exports is, indeed, slightly increased in the first nine months of the year from 3,200,228 metric tons for 1926 to 3,217,457 for 1927. Imports by weight are also increasing, but the one biggest item of increase (coal from 7,318,775 to 8,691,918 tons, easily accounted for by the British strike of 1926) covers the total increase of 1,023,525 tons. Wheat imports increased also from 1,678,443 to 1,912,691 tons, owing to the comparatively low 1926 harvest. On the other hand there are some striking decreases in particular imports: — Raw cotton from 189,418 to 159,543 tons; raw wool from 36,386 to 29,293 tons; pig-iron from 149,658 tons to 100,919; scrap iron from 579,750 to 545,291 tons; iron and steel ingots from 91,354 to 61,595 tons; machinery from 92,763 to 59,625 tons; cellulose from 105,237 to 83,463 tons; nitrate of sodium from 52,117 to 44,679 tons; calciocianamide from 41,535 to 25,873 tons; potash manures from 37,807 to 15,357 tons. Industry and agriculture thus seem to be marking time and waiting for better times before replenishing their stocks. They are buying raw materials from hand to mouth, not daring to embark on new schemes for the future. Legal stabilisation of the lira and a new stable equilibrium of prices, wages, taxes and debts is the only cure for the present uncertainty; a slow cure, indeed, on the 90 lire for each pound sterling level, but analogous to the British process of the return to gold, and one through which we must perforce pass.

158.

ITALY

IMPORT OF FOREIGN CAPITAL – STOCK MARKET REVIVAL – ABUNDANT
MONEY – ITALIAN SUPER-POWER CORPORATION*From our Correspondent*

Turin, January 22

No further details can be given as yet about the operation of the gold exchange system which was adopted a month ago. Negotiations are still going on between the Bank of Italy and the Treasury regarding the exchange of paper lire into bills payable in gold in foreign countries. For the time being importers must continue to justify their demand by invoices and shipping documents before obtaining from the banks the desired foreign bills. It seems, however, that the Bank of Italy will as soon as possible sell openly and without requiring documents, dollars or sterling bills at the stated official rates of 19 and 92.46 lire respectively, with only the current deviations within the gold points. A decree of January 5th regulates imports and exports of capital. All discounts of trade bills, opening of current accounts at banks, and deferring of payment of goods purchased are declared wholly free, and will not require any official authorisation. Loans falling due more than a year after their issue are subject to Treasury sanction, whether sought by private firms or companies or public bodies. Only such loans will be authorised whose proceeds are to be invested for production purposes, and especially for promoting exports or avoiding imports. A subsequent control on the effective investment of imported capital will be organised. Imports of capital can be superseded if deemed for a time dangerous to the stability of foreign exchanges.

No up-to-date figures on the influence of stabilisation on new savings are available. Reports from ordinary savings banks point to a revival of deposits; timid people who had been hoarding paper notes are bringing their hard-saved money to savings banks. Owing to a decreased demand from industry and trade money is abundant also in the tills of ordinary banks,

158. January 28, 1928, p. 164. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

and, without being a drug in the market, is offered at rates below the 7 per cent. official Bank rate and much below those prevailing a few months ago. Securities can be carried over in the Bourses at 6 to 6½ per cent., against 7 to 8 and even 9 per cent. a year ago. It cannot, however, be said that the cheapness of money has had much to do with the remarkable revival of Stock Exchange quotations. The most prominent security has been the Bank of Italy share, which on December 21, 1927, when nobody suspected the forthcoming stabilisation decree of the same day, stood at 2,103 lire. At the end of the year the price was 2,565, and it closed to-day at 2,620 after having reached 2,673 lire. The rise was wholly due to speculation, as shareholders cannot expect for some years an increase of dividend above the present 60 lire; and the stabilisation decree very clearly states that the increase of assets resulting from the revaluation of the Bank of Italy gold reserves must be credited to the Treasury, without in the least benefiting the shareholders. Real estate securities also profited from the stabilisation, Beni Stabili of Rome going from 537 at December 21st to 642 at January 21st, and Fondi Rustici from 190 to 218. Another section whose securities were put up was the electrical; the Vizzola, for instance, going from 885 to 1033, the Edison from 617 to 688, the Sip from 133 to 150. These two groups, real estate and electrical, improved mainly through the impression that their gross revenues, not being subject to fluctuating cost of production, had acquired a more stable value after the return of the gold standard. Opinions are very divergent about industrial groups: textiles, iron and steel, engineering, shipping, chemicals, motor-car, artificial silk. Here the employers will have to struggle, perhaps for a long time, with the cost of production problem. International and wholesale internal selling prices are in equilibrium with the stable monetary level; but wages and fixed-interest charges lag as yet behind. The general public is sensitive of the delicacy of the industrial situation, and are holding aloof from the share market. Stabilisation, however, seems to have already borne good fruit in the market for fixed-interest securities. For a long time debentures were neglected, and some of them had sunk to so low a level as to yield 10 or even 12 per cent. Investors did not care for them, fearing the vagaries of the lira. Being at present assured on that score, they began to look with complacency on the prospects of good fixed yields. The movement will no doubt slowly spread to the share market, but it will be a long time before investors are persuaded that the revaluation crisis is over. Reductions of dividends for the year 1927 appear unavoidable, and will be declared by the best and most prudent boards of directors; but, however useful and wise, reductions of dividends are not the best advertisement to the share market.

In financial circles the constitution of the "Italian Superpower Corporation", incorporated in Dover, Delaware, U.S.A., was therefore looked at with favour as a means of giving fresh capital to the electrical industry. The issues will be limited, for the present, to 100,000 preferential shares of 100 dollars and to 20,250 6 per cent. debentures of 1,000 dollars each. The corporation will act as a holding trust for a number of the best Italian electrical securities, and it may be that the share and debenture issue by the corporation will find a market in Italy if Italian investors persuade themselves of the advantages of the Investment Trust System which at present is almost unknown in our country.

159.

ITALY

FOREIGN TRADE. — Excluding precious metals and Reparation deliveries, and adopting the corrected figures of the Central Institute of Statistics, the figures of 1927 and previous years were as follows, those for November and December, 1927, being provisional:

(In Millions of Lire)				
	Imports.*	Exports.*	Excess of Imports over Exports.**	
1910-13	3,496	2,528	(a) 968	(b) 968
1920	18,105	8,742	9,363	3,049
1921	17,226	9,299	7,927	2,012
1922	15,755	10,698	5,057	1,237
1923	17,189	12,757	4,432	1,054
1924	19,381	16,529	2,852	643
1925	26,200	21,015	5,185	1,071
1926	25,871	21,184	4,687	937
1927	20,324	15,542	4,781	1,238

* In paper lire. ** (a) Paper lire. (b) "Gold" lire.

The shrinkage in the total foreign trade from 1926 to 1927 comes to about 22 per cent., which is somewhat less than the decrease of 23.5

159. February 11, 1928, pp. 16-17. The article, unsigned, was published in the supplement: *The Economist. Commercial history & Review of 1927*. Its attribution is certain from correspondence between Einaudi and the editorial staff of *The Economist* (Einaudi's letter to Leonard J. Reid, January 28, 1928, in the Einaudi archives). There is also a newspaper cutting of the article kept in the Einaudi archives.

per cent. in the paper price of gold. Exports decreased by 26.7 per cent., and imports by 21.5 per cent., or by rather less. Consequently the adverse commercial balance for 1927 is slightly higher in paper lire than in the preceding year, and remarkably more so when calculated in gold lire.

CROPS. — Owing to unfavourable weather conditions, crops were generally lower than in the preceding year, though comparing well with pre-war results:

	(In Thousands of Tons)				
	1909-13 (Average)	1916-25 (Average)	1925	1926	1927
Wheat	4,989.8	4,916.4	6,654.8	6,005.0	5,329.1
Maize	2,548.6	2,293.7	2,692.4	2,795.7	2,093.2
Rice	475.0	524.6	629.4	665.6	696.1
Grapes	7,096.6	6,263.9	7,143.4	5,974.9	5,795.8
Cocoons ...	40.8	35.2	40.6	41.3	
Potatoes ...	1,654.8	1,745.7	2,187.7	2,311.0	1,945.3
Hemp	83.5	84.7	123.9	121.2	82.9

The decrease in prices of agricultural products has restricted the consumption of fertilising manures, especially in the North of Italy, where agriculturists feel that past improvements can be made to last for a time, without new investment of money in the land.

INDUSTRY. — Imports of coal increased from 7,894,590 tons in the first ten months of 1926 to 9,490,430 tons in the corresponding period of 1927; but this is not a good index of industrial activity, as the 1926 imports were decreased and those for 1927 swollen by the influence of the British stoppage. The increase in imports of oil and derivatives may have been influenced by the same cause and by the growth in and use of motor-cars and lorries. Imports of raw materials point in general to a slackening of industrial activity. For the first ten months of each year cotton imports fell from 202,685 tons for 1926 to 173,411 tons for 1927. Those of natural wool fell from 37,319 to 20,883 tons; and washed wool fell from 4,633 to 3,607 tons. Dried cocoons declined from 1,444 to 1,042 tons. Broken iron and steel from 641,471 to 599,181 tons, and pig-iron from 157,424 to 109,880 tons. Copper fell from 58,071 to 48,947 tons, lead from 18,118 to 12,701 tons, tin from 3,663 to 3,602 tons, and spelter from 8,971 to 8,190 tons. Timber imports shrunk from 1,539,605 to 1,460,966 tons, hides (raw) from 34,463 to 25,545 tons, and cellulose from 117,221 to 94,075 tons. Jute imports rose from 35,326 to 42,114 tons. A

small decrease was registered in the goods carried by the State railways, the returns being 37.5 million tons for the first seven months of 1927, and 38.3 millions for the corresponding period of 1926. New tonnage launched was 57,777 gross tons in the first nine months of 1927, against 250,289 gross tons for the whole of 1926. Monthly average failures, which were 617 in 1913 and 654 in 1926, rose to 879 in the first eleven months of 1927. The total of unemployed, which in 1926 varied between 79,678 (July) and 181,493 (December), was for January, 1927, 225,346, decreasing to a minimum of 214,603 in June, and then rising regularly to 332,240 in October. In addition, the number of partially unemployed, which in 1926 did not exceed the maximum of 26,756, was for January, 1927, 63,716, rising to 134,251 in August and 130,930 in October. The number of subsidy days, which averaged 527,555 in 1926, rose uninterruptedly from 866,681 in January, 1927, to 2,011,583 in October.

THE REVALUATION CRISIS. — All data seem therefore to point out that the year was influenced by the revaluation process, whose intensity was of a magnitude perhaps not inferior to any similar foreign process. This accounts for the present industrial crisis in Italy, which, even so, is only of moderate dimensions.

PRICES AND WAGES. — Various Index numbers are given below:

	Bank and State Notes Issued	Paper Price of Gold	Wholesale Prices		Cost of Living	Wages
			In Paper Lire	In Gold Lire		
1314-14	100	100	100	100	100	100
1921	766	457	538	117	541	530
1922	751	410	530	130	500	510
1923	721	421	535	127	494	478
1924	730	444	553	125	526	480
1925	765	486	646	133	611	529
1926	749	500	654	131	653	571
1927	708	377	503	140	589	—
Dec. 31	690	366	488	134	535	—

At the end of December the wholesale gold price level was lower than in Great Britain, United States, Switzerland, and Germany. The cost of living index was 535 expressed in paper lire, and 145 in gold. This is also low-

er than in countries mentioned above. If, in spite of these figures, exports are difficult, this may be due to the relative height of production costs in the various countries, regarding which reliable data – especially as to wages – are lacking. Probably wages are back to the 1925 level; but as various industries are not working full-time, overhead charges are telling against readjustment.

SAVINGS. – The stabilisation decree, by reassuring the public, seems to have had beneficent results on new savings, which were restricted during 1927 by decreasing money incomes and unemployment. Investments in joint-stock companies' shares, which amounted to 3,838 million lire in 1926, decreased to 1,698 million lire in the first eleven months of 1927.

MONEY AND STOCKS. – Despite repeated demands for its reduction, the official rate discount remained fixed at 7 per cent. The open market rate of discount eased progressively, until at the end of the year banks, prompted by abundant money, discounted first-rate commercial bills at $5\frac{1}{4}$ to $5\frac{1}{2}$ per cent. Carry-over rates for Consols were reduced from 7-8 per cent. to 4-7 per cent., and for shares from 8-9 per cent. to 6.50-7.50 per cent. Except for a short-lived spurt in February, markets were bad until the end of the year, when stabilisation brought with it a remarkable improvement.

PUBLIC FINANCE. – The last three complete financial years (1924-25, 1925-26, 1926-27) closed with surplus of 417, 468, and 405 million lire respectively. Revaluation and stabilisation have not so far affected the stability of the Budget, and a surplus of 10 million lire is reported for the period July to November, 1927. In the meantime, thanks to the cancellation of the Treasury debt to the Bank of Italy as a consequence of the revaluation of the bank's gold reserves, State internal debt, which had reached a maximum of 96,163 million lire on June 30, 1924, and was 90,361 millions on June 30, 1927, has fallen 86,000 million lire for December 31, 1927. To this must be added the present value of the annuities due to Great Britain and the United States, and the 100 million dollars of the Morgan Loan.

160.

ITALY

STABILISATION REGULATIONS – THE GOLD EXCHANGE
SYSTEM – INDEPENDENCE OF THE BANK OF ITALY –
DECREASING TREASURY REVENUE

From our Correspondent

Turin, March 4

Two royal decrees dated February 26, 1928, disclose the eagerly awaited regulations concerning the convertibility of the Bank of Italy's notes into gold and gold bills. The main provisions are: – 1) The Bank of Italy must give in exchange for their notes, if tendered at the head office at Rome, the equivalent in gold bars or in gold bills, at the option of the Bank; 2) if the Bank chooses to pay in gold bars, it must give 7,919,113 grams of gold for every 100 lire; 3) if the Bank prefers to pay in gold bills, it must give gold bills drawn on countries in which banknotes are convertible into gold. The rate of exchange is the current one, but not higher than the rate fixed for the export gold point. At present the export or higher gold point is fixed at 19.10 lire to the American dollar; 4) the Bank is not under statutory obligation to give notes against gold bars or gold bills tendered, and thus it may appear that the gold exchange is a "limping" one, and does not forbid a further improvement of the exchange under the 19-lire rate; 5) but the end is to be reached by a different obligation laid upon the Bank of Italy – *i.e.*, that of buying and selling gold or gold bills, so that the rate of exchange cannot increase over the 19.10 lire to the dollar limit, nor decrease below 18.90. There is not a substantial difference between the open obligation of giving notes against gold and the more subtle duty of opposing cheapening of gold in terms of lire. If exchange rates should tend to fall below the lower gold point (18.90), the Bank will be obliged to sell notes against gold, and so to increase circulation. It appears that the adoption of this system was prompted by a terror of increasing circulation and the consequent unwillingness to insert into the Statute

160. March 10, 1928, pp. 485-486. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

Book a regulation which openly authorised the Bank to issue an unlimited amount of new notes to prevent, if necessary, the improvement of the exchange rates under 18.90. But the obligation of keeping exchanges between 18.90 and 19.10 means, perforce, if it has any meaning at all, that the Bank has the authority to issue notes against gold bought in order to prevent a fall below 18.90; 6) the extent of the obligation is somewhat eased by the fact that the February 26th decrees do not suppress previous regulations about buying and selling gold bills on foreign countries. As Signor Volpi frankly told the Senate during the February 17th session, the Government would consider it very imprudent to abolish at once all restrictions in this field. Restrictions will be relaxed later, but, in the meantime, foreign bills can be bought and sold only for commercial purposes approved by special Government authorities. Therefore, it would not be possible to deplete Bank gold reserves by demands originating in a panic of capitalists anxious to invest their savings in foreign countries; nor, conversely, is the Bank under the risk of being submerged by a deluge of gold bills tendered to it, on the threat of the rate falling under 18.90, for loans in foreign countries are authorised only after strict scrutiny by the Government. Nor are existing restrictions on the export and import of gold abolished.

In the February 17th session Signor Volpi made another declaration. "The note issue", he said, "is thenceforward put under the responsibility of the Bank of Italy, which means that credit operations will be decided exclusively from a banking point of view". These words, being preceded by a warning to those who clamour for State intervention in favour of private enterprise, mean that the Government will in future abstain from exercising any influence on the Bank of Italy's operations. This will be somewhat of a novelty in Italy; for issue banks have been hitherto more or less under Government influence, and credit concessions savoured not infrequently of political or social or public safety justifications. For the first time in the history of Italian banking it is openly recognised that, if the bank of issue is to remain the only and supreme controller of the foreign exchanges, it must be kept entirely free from Government interference.

The public accounts are beginning to show the effects of stabilisation. I give below some figures relating to the most interesting items of the cash revenue for the period from July 1st to January 31th (in millions of lire):

ITALY UNDER FASCISM, 1925-1935

	(In Millions of Lire)		
	1925-26	1926-27	1927-28
Tax on income from land and houses	219.5	219.8	175.7
Tax on other (industrial, commercial, professional) incomes	1,134.3	1,394.9	1,461.0
Taxes on goods and capital transactions	2,187.4	2,229.2	1,785.6
Excise and Customs	2,794.4	3,033.2	2,733.9
Tobacco, salt, and other monopolies	1,846.1	2,314.7	2,295.3

From the high-water-mark of 1926-27 there is a decline sufficient to bring revenue under the 1925-26 level. Total figures of revenue and expenditure were as follow (for the seven months' period and in millions of lire):

	1925-6	1926-7	1927-28
Revenue	12,335.7	11,328.6	10,284.9
Expenditure	10,223.7	11,006.6	11,553.8
Excess (or deficit) of revenue over expenditure	+ 2,111.9	+ 321.9	- 1,268.9

It must be noted that these figures relate to the *de facto* incomings and outgoings of the Treasury. There is another set of figures in the Italian system which is published side by side with the above, and refers to the revenue which is bound to enter into the Exchequer, on the year's estimate, and to the expenditure which must be made on account of the year concerned, even if actually postponed to the following year. On that score the excess of revenue over expenditure was 300, 214 and 67 million lire respectively for the above-mentioned periods. The latter set of figures is more rational; but the first one is more useful when studying the actual movements of sums going in and out of the Exchequer. From the above figures, the equilibrium of the public Budget appears to rely mainly on the reduction of expenses.

Yesterday the official rate of discount, which was raised on June 18, 1925, to 7 per cent., was lowered to 6.5 per cent. Even so, the official rate remains much higher than the current rate for good commercial paper, which can be discounted easily at 5¼-5½ per cent.

161.

ITALY

COMPANY REPORTS – CAPITALISATION ADJUSTMENTS –
A TRYING YEAR – OPTIMISTIC VIEWS*From our Correspondent*

Turin, March 31

The usual March shareholders' meetings of the joint stock companies afford interesting glimpses into the state of trade and industry in Italy. Shareholders, who hoped against hope that the revaluation and stabilisation crisis would not touch their dividends, were concerned at too frequent announcements of reduction and passing over of dividends. Sometimes things seem worse, as, for instance, when the shareholders of the Snia Viscosa Company, the great artificial silk concern, were invited, at the meeting on March 29, to sanction the reduction of the capital from 1,000 to 800 million lire, and to utilise the 200 millions thus made free and another 300 million lire taken from the ordinary and extraordinary reserves to reduce the book value of various items on the asset side. After having thus put their house in good order the directors again raised the capital from 800 to 1,000 millions by the issue of 1,617,667 ordinary and 50,000 preference shares at the price of 150 lire, *i.e.*, 120 face value and 30 lire premium. So far as capital reductions are prompted by the desire of rearranging book values of assets perhaps originally bought or built at the inflated prices of the times when the lira hovered between 25 and 30 lire per dollar, no harm and some good will result from changes in capital accounts. A keen discussion is going on in the economic Press on the expediency of adapting book valuations of assets and liabilities according to the new legal level of the lira. At present book valuations in many companies are of the most heterogeneous and haphazard kind; some items are written at ridiculous prices on the basis of the old prewar lira, and others at the various changing purchasing-power levels from 1914 to the present day. Balancesheets give little indication of the real value of assets and liabilities and of the current true

161. April 14, 1928, pp. 763-764. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

probable valuation of capital proper and reserves. Would it not be better to put all values on the up-to-date basis of 19 lire to 1 dollar, which is, moreover, the present law of the land?

As in Germany, Austria, Yugoslavia, Hungary, where the same problem was dealt with previously, many difficulties bar the way to a truly satisfactory solution of the problem. On what basis should the revaluation be made – on that of the rule-of-thumb relation between the level of foreign exchanges at the time of buying or building each specific asset or of the current present value, or on that of the probable future income capitalisation? Current values are sometimes not a good guide, because nobody would think of investing fresh money in machinery bought at current prices if the probable yield appeared unremunerative; which simply means that equilibrium in the special field is as yet not reached. Another, and to the eyes of directors of companies a more formidable, bar to revaluation was the income-tax bugbear. It was, not without reason, feared that if, for instance, an item originally valued in 1910 at one million lire were revalued, on the present prudent basis, at three million lire, the difference would be deemed by the taxing authorities as taxable profit or income subject to a tax amounting in all to about 20 per cent. The point was brought by the Turinese Nebiolo Company before the highest administrative tribunal. The result was that these revaluation differences were declared not to be profit and income, and therefore not taxable. The way is, from this point of view, open to rearrangement of balance-sheets. The Edison Company, the great electricity concern with a capital of 712,500,000 lire, was contemplating a revaluation of old assets, the result of which would have been the increase of the net capitalisation from the above said 712.5 to 950 million lire, and of the nominal value of each share from 375 to 500 lire. As the present dividend is 45 lire per share, it bulks somewhat large on a nominal capital of 375 lire. If the nominal value could be increased to the true value of 500 lire, the dividend of 45 lire would work out at only 9 per cent. – not an excessive figure for an industrial investment, and a more convenient one in relation to electricity selling prices and to the wages level. As, however, directors were informed by their legal advisers that no Italian company can increase its capital, even if the increase is a mere book-keeping transaction, without leave from the Finance Ministry, all action is in suspense until the Ministry has made up its mind about the new problem.

Reports of directors, especially of bank directors, are unanimous in observing that 1927 was rather a trying one for Italian economic life, but that there are signs of better times ahead. As official statistics are more or less

belated, improvements are as yet not visible. The total number of unemployed reached the maximum of 439,211 in January, 1928, against 225,346 in January, 1927, a maximum of 414,283 in December, 1927, and a minimum of 214,603 in June. The number of partially unemployed was, however, only 76,327 in January, 1928, against a maximum of 134,251 in August, 1927. Number of subsidy days was 18,680,274 in 1927, against 6,330,665 in 1926 and 4,019,062 in 1925. Failures are on a rising scale: -617 was the monthly average in 1913, 474 in 1923, 607 in 1924, 602 in 1925, 654 in 1926, 944 in 1927, and 1,040 in the first two months of 1928. Imports for the first two months of the year amount to 3,266.7 million lire, against 4,010 millions in the same period of 1927; exports were 2,247.9 millions, against 2,518.1 millions; so that the excess of imports over exports decreased from 1,491.9 to 1,019.8 million lire. Bourses, which always look to the future, are moderately optimistic. *Bachi's* average index number for variable-dividend securities is 129.8 (basis 100 = December, 1913) for February, 1928, against 123 for December, 1927, and 104.5 for December, 1926. Clearly the Bourses think that the reduction and passing over of dividends are a good policy from the point of view of sound finance, and that the strengthening of reserves is conducive to better dividends in years to come.

162.

ITALY

STOCK EXCHANGE BOOM – THE PUBLIC AND
FIXED-INTEREST SECURITIES – STATE
SHORT-DATED BILLS – UNEMPLOYMENT – IMPORTS OF COAL
AND RAW MATERIALS – COAL RESERVES FOR STATE RAILWAYS

From our correspondent

Turin, May 8

The outstanding feature of the month of April was the rise in Stock Exchange prices. On the basis of 100 for December, 1925, the worst was reached, according to the Milan Chamber of Commerce index, on June

162. May 19, 1928, p. 1036. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

25, 1927, when the general average of 35 representative variable dividends securities was as low as 57.63. After that date progress was almost uninterrupted: 64.06 at July 29th, 67.06 at August 26th, 71.92 at September 23rd, 76.92 at October 29th, 73.15 at November 26th, 80.25 at December 31st, 82.24 at January 28, 1928. Then intervened a lull: 81.56 at February 25th, 81.01 at March 31st, followed by a big jump to 89.41 at April 28th. All groups took part in the rise. Taking the extremes for June 25, 1927, and April 28, 1928: Banking shares rose from 80.26 to 105.27, navigation and transport 60.21 to 86.41, textiles 32.49 to 52.89, minerals, iron and steel, and engineering 51.58 to 85.82, electrical 63.78 to 105.4, land and real estate 48.98 to 88.15, food and miscellaneous 65 to 105.45. For individual shares the rise was sometimes spectacular: For the Bank of Italy shares, 95.66 to 144.21; Soie de Chatillon (artificial silk), 30.07 to 63.75; Montecatini (chemical fertilisers), 62.37 to 113.90; Edison (electricity), 59.72 to 109.23; Beni Stabili (real estate, Rome), 49.38 to 105.28; Risamento Napoli (real estate, Naples), 64.26 to 126.81; Pirelli (rubber cables, &c.), 43.79 to 75.17. The volume of transactions is also increasing; whereas during last August the daily sales in all Italian bourses averaged only 2.43 per thousand of 35 existing issued securities considered, in the last week of April the average was 8.79 per thousand. It is as yet uncertain, however, if the general public is participating in the speculative bull movement. Until very recently only professional operators took interest in variable dividend securities. The general public, who at the beginning snatched the opportunity for selling frozen holdings at rising prices, was content, as the rise continued, to hold and wait. The public preference is for fixed-interest securities. There do not exist, except for State securities, general number indexes for fixed-interest-bearing securities. *Bachi's* index gives 54.9 and 64.3 respectively for June, 1927, and March, 1928, extremes of State consols and redeemable bonds. But other securities have fared better; for instance, debentures of the Turin Land and Real Estate Credit Institute, which sold well under 400 in the middle of last year, to-day find ready buyers at 480. The renewed interest in debentures paves the way for the remaking of a market, which was somewhat spoiled by the compulsory conversion of the Treasury bills in November, 1926. It might be thought that the bad experience of investors in Treasury bills, when they found them suddenly and compulsorily converted into perpetual 5 per cent. consols, would render them shy of short-dated bills issued by the State; and this is the reason why the Finance Minister is testing the buying propensity of the public by tentative indirect issues, such as Post Office and deposit

and loans State Bank's bills. Both sell very well, proving that investors desire short-dated securities. They eagerly search after debentures; an 80-million 6 per cent. loan issued at 95 per cent. by the City of Turin was subscribed in a few hours.

The reluctance of the public to enter into variable dividend share commitments, notwithstanding the past big rise and the hope of better future quotations, is explained by the uncertain prospect for industry and trade. The stabilisation crisis is as yet not over. The number of unemployed, after having risen to a maximum of 439,211 at January 31st, was still at 413,383 at the end of February, almost the same level as the 1927 maximum (December 414,283). The subsidy days paid were in February 1,948,743, against 1,845,952 in January and 2,015,579 in December, 1927. Tons carried over the State railways on account of the public, which is a sensitive index of the economic situation, increased from January (3,940,000 tons) to March (4,658,000), but the figure for each month and for the first quarter total (12,906,000 tons in 1928 against 14,080,000 in 1927) remains below 1927. Imports of coal – exclusive of Reparations coal – in the first two months of 1928 were 1,275,910 tons, against 2,308,397 tons for the corresponding period of 1927, a big fall, partly influenced by the consequences of the British, 1926, strike. Broken iron and steel imports decreased in the same comparative period from 92,288 to 69,809 tons; pig-iron from 21,291 to 14,829 tons. But in other branches, as in textiles, things are improving; imports of jute increasing from 9,591 to 13,316 tons, of raw wool from 9,707 to 11,731 of cellulose from 20,329 to 31,661. Cotton is stationary at 45,154, against 45,798 tons.

A much-discussed question is the competition of German with British coal. Prices of British coal are at present c.i.f. on railway cars at about the same level in shillings as in 1913 (anthracite first 34s 6d at April, 1928, against 28s 6d for the 1913 average; gas first, 22s 6d, against 24s, Cardiff first 27s 6d, against 29s 6d). Free imports are diminishing also because the State Railways are almost exclusive customers of the Azienda Nazionale Consumatori Carbone, a semi-public concern for the import of German coal. Reparation coal imports increased from 247,600 tons in January-February, 1927, to 562,355 tons in the same period of 1928. The whole of it was sold to the State railways, whose reserves from 1,960,000 tons at the end of June, 1927, appear to have gone up to 2,500,000 tons at the end of March, 1928, a figure not much below one year's consumption. The State railways aim, apparently, at building up a reserve sufficient to carry over Italian requirements during possible strikes and other suspensions

of production in coal producing countries. A fund of £ 5 millions sterling is needed for carrying out the coal deposit plan. Coal importers object that such open-air stocks are very expensive on account of atmospheric influences, fire and other losses but the only other alternative would be State subsidised private stocks. This plan was sometimes tried on a small scale in the past, but it proved unacceptable.

163.

ITALY

BUDGET CRITICISMS – SIGNOR VOLPI'S REPLY – NEW BUSINESS

INDICES – BANKING AFFAIRS

From our Correspondent

Turin, June 8

In reply to some pertinent strictures published in the report of the Budget Commission of the House of Deputies, two most important speeches were made by the Finance Minister, signor Volpi, on May 25th, before the House of Deputies and on June 6th before the Senate. Signor Tumedei, who had charge of the House Commission Report, brought out the necessity for retrenching expenditure if the equilibrium of the Budget is to be maintained. It would be impossible even to summarise the bewildering mass of figures with which Signor Tumedei illuminated his point. Perhaps the most striking figures were the following: – *Cash incomings* for the first nine months of the past two and current fiscal years: 15,627 millions lire for 1925-26, 14,586 for 1926-27, 13,578 for 1927-28; *cash payments* – 13,062 for 1925-26, 14,097 for 1926-27; 14,767 for 1927-28. Cash incomings are decreasing and cash payments are increasing. If a stop is not put to the rise in expenditure danger is ahead. Signor Tumedei pointed out that the increase of payments is due partly to the big sums which each year have to be paid on account of arrears of expenditure relating to past years. While in the last pre-war years the proportion of payments on account of arrears to total payments was 19.7 per cent., during the two years 1925-26

163. June 16, 1928, pp. 1240-1241. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

and 1926-27 the proportion has risen to 35.3 per cent. Although reduced from 15,214 millions lire at June 30, 1926, to 14,819 at June 30, 1927, the arrears to be paid still look formidable, and not being counterbalanced by arrears of credits for taxes unpaid, &c – which amount to only 3,352 millions lire at the last-named date – constitute a most unwelcome addition, not always taken account of, to the national debt.

Signor Volpi did not deny the urgent necessity for economy in the public expenditure. He pointed out that the mass of arrears to be paid is steadily decreasing, and, further, that 2,500 millions lire for interest on public debts at June 30th, which each year appears in the category of arrears, are paid in the first days of the following year. In part the arrears are merely apparent, representing, as they do in some cases, suspense accounts, which for some technical reasons cannot be written off, although the payment has already been made. A big part, finally, consists of arrears for public works expenditure, which were by law included in the estimates of a certain fiscal year, but which cannot be paid until the works in question are completed. This process may take years.

Signor Volpi is hopeful as to the future development of the yield of taxation. In the fiscal year 1921-22 the extraordinary and temporary war taxes on incomes yielded 2,980,504,000 lire, *i.e.*, 60.76 per cent. of the total yield of income-taxes, which amounted to 4,905,621,000 lire. In the fiscal year 1926-27 the extraordinary war taxes on incomes yielded only 1,329,000,000 lire, *i.e.*, 21.56 per cent. of the total yield of income taxes of 6,164,000,000 lire. The background of the public finance is thus much more solid than in past years, as the part played by transient war taxes is steadily declining, as against an increasing yield of permanent taxation. The increase is due to the increase of the number of taxpayers – 1,770,901 in 1927, against 1,340,110 in 1923 for the tax on incomes other than land and houses – and of the total of the income-tax, namely, 8,342 million lire in 1927, against 3,676 millions in 1923. The average individual income of industrialists and tradesmen subjected to tax rose from 3,882 lire in 1925 to 5,875 lire in 1928, and the average for professional men from 3,686 to 5,661 between the same dates. The increase of the average taxed income taking place during the devaluation crisis has made taxpayers complain, but if economies in public expenditure are forthcoming, good results may be hoped from the tightening of the screw.

To the old sets of figures of unemployed, a new feature has been added in the last number of the Bulletin of the Central Institute of Statistics. Tak-

ing the figure for September, 1926, as the basic figure of 100, the number of men employed in 4,443 industrial establishments in the week from February 27 to March 3, 1928, was 91.5; and in the week from March 26th to 31st was 91.1. In the last week of March, 1928, the index was 129.7 for the artificial silk industry, 103.9 for macaroni and other pastry factories, 102.9 for railway materials factories, 101.9 for hat factories. The lowest employment indices were found in superphosphates (72.1), motor-cars (73.4), cements (76.8), engineering (82.3), knitting works (82.6), iron and steel (81.5 and 81.1), silk spinning (86.4).

Bank deposits have been growing since stabilisation. Taking as 100 the figure for December, 1913, deposits in postal savings banks rose from 465.7 at the end of November, 1927, to 486.5 at the end of March, 1928; in ordinary savings banks from 499.9 to 537.2 between these same dates, in ordinary banks from 569.1 in October, 1927, to 600.4 in February, 1928; and likewise between these dates in people's banks from 657.0 to 665.5; in local banks from 761.0 to 791.3. The increase of deposits can be interpreted as an index of an increase in the saving habit, but may also signify a certain slackening of business. The continuous decreases of the figures of discounts of the Bank of Italy from 6,520.4 million lire at the end of 1925 to 5,356.2 at the end of 1926, 3,809.5 at the end of 1927, and 2,980.7 at May 10, 1928, are significant in this respect. When we add that the advances of the Bank of Italy also decreased from 3,915 million lire at the end of 1925 to 2,683.6 at the end of 1926, to 1,604 at the end of 1927, and to 874.0 at May 10, 1928, we may appreciate how difficult it is at present for the Bank of Italy to control the credit market. Ordinary banks are large creditors of the Central Bank at present, and the private discount rate for good commercial paper at 5.25 per cent. is lower than the 6 per cent. official rate. Until there is a true revival of business, commercial paper will not go to the Bank of Italy, and deposits accounts will go on increasing.

164.

ITALY

BOURSE SLACKNESS – REDUCTION OF EXPENDITURE – MUSSOLINI
ON DEVALUATION RUMOURS – BANK OF ITALY REFORM – GOLD
OR GOLD SECURITIES?

From our Correspondent

Turin, July 17th

Summer, as usual, means less business for Italian bourses. The volume of transactions for 35 representative dividend-bearing securities, which had increased steadily from a daily average of 4.05 securities sold per thousand issued in December, 1927, to a maximum of 10.69 per thousand in the week from May 14th to 19th, decreased again more rapidly to 2.25 per thousand in the week from July 2nd to 6th. The average level of quotations decreased also, however not touching such low bottoms. The general average (December, 1925=100), which had risen from 64.06 on July 29, 1927, to 80.25 on December 31, 1927, and to a maximum of 90.56 on May 26, 1928, fell to 82.94 on July 6, 1928. Inquiry into the causes of the morose behaviour of the bourses does not reveal a worse outlook in industry. Commodity prices have not receded, industrial half-finished products hovering between (basis 1913=100) 446.4 in December, 1927, and 445.5 in June 1928, and finished products between 560.9 and 568.7, while national products in general rose from 473.8 to 485.3 and export products from 461 to 479.9. Unemployment is decreasing; after reaching 439,211 at the end of January, the figure fell regularly to 306,629 at the end of May, while partially-employed men decreased from 133,420 at the end of November, 1927, to 45,569 at the end of May.

Current talk relates the modest rise and subsequent slump in Italian bourses to the more spectacular recent movements in New York, Paris, and other foreign Stock Exchanges. Foreign investors had begun to take interest in Italian variable dividend securities, which were deemed to be at a too low level, and the interruption in June and July of such foreign

164. July 28, 1928, pp. 177-178. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

purchases in a market where national investors are timid may have contributed to bring about a revulsion of prices. A contributory cause of the spring rise may have been the impending stabilisation of the French franc. When stabilisation at about 125f to the pound sterling seemed imminent, some faint hope began again to be felt among struggling industrialists that Italy would follow suit and revise her level of stabilisation from 92.46 to about 120-125. If such a feeling was really widespread, and if it was a real factor of the May rise in the Bourses, is doubtful. It is certain that Signor Mussolini, in his usual trenchant manner, put an end to such wild hopes, for in a speech before the representatives of Italian industry assembled in Rome of June 22nd, he said: "Talk about the Government revising the stabilisation level in imitation of what France is about to do is grotesque, and the sales of lire to that end are criminal. These attempts to depress the lira will be again unflinchingly dealt with. On the basis of the present level there is already established an equilibrium which it would be sheer madness to change or imperil. The Government could not remain an hour more in office if it were guilty of such folly".

The stabilisation decree of December 21, 1927, has had a sequel in a decree of June 17, 1928, and in the decisions of the general meeting of the Bank of Italy's shareholders held in Rome, June 18, 1928. The administration of the bank of issue will be henceforth in the hand of a Governor (Signor Stringher), with a general director and a vicegeneral director as his executive officers. They are elected by the general meeting of shareholders, but are approved by the Treasury. Shareholders will be represented by a general council, whose functions will be more supervision than effective direction. The capital will be increased from 240 to 500 millions lire issued and from 180 to 300 millions paid up. Of the new 200,000 shares, 100,000 are allotted to old shareholders without further payment, in consideration of old reserves, and 100,000 are allotted at the price of 1,300 lire each to Italian savings banks. Most important, from a general point of view, are the new regulations with regard to note issues. The Bank is obliged to hold a reserve in gold foreign securities of at least 40 per cent. of her total current debts, *i.e.*, notes, cheques, current private deposits and Treasury deposits up to 300 millions lire. If the reserve should decrease below the 40 per cent. level and not below 30 per cent., the Bank will pay a tax equal to the official rate of discount increased by 10 per cent. For every further decrease of 10 per cent. in the reserve the tax will be further increased by 10 per cent. The notes and cheques not covered by gold reserves will be subject to a tax of 1.5 per cent.

The Treasury can ask from the bank advances up to a maximum of 450

millions lire at 2 per cent. yearly interest. Notes issued against such advances must be covered by the usual reserve of 40 per cent., but their uncovered portion is not subject to the ordinary 1.5 per cent. tax. No fixed proportion between the gold and gold securities portions of the reserve will be compulsory. Signor Stringher, in his report, uttered prudent but very significant hints about his intention of increasing the gold at the expense of the gold securities portion. The first and the last balance-sheets published by the Bank after the December 21, 1927, decree may be, from this point of view, summarised as follow (in millions of lire):

	Jan. 10, 1928	Per Cent.	June 20, 1928	Per Cent.
1. Gold.	4,547.1	37.5	4,886.8	40.1
2. Gold securities:				
Foreign bills & deposits	6,694.8	55.3	5,605.0	46.1
Foreign States bills	864.0	7.2	1,681.9	13.8
	<hr/> 12,105.9	<hr/> 100.0	<hr/> 12,173.7	<hr/> 100.0

The interesting features are, first, the increase of gold proper and next the preference given to investments in foreign States bills as against private bills and banking deposits. As yet the increase in gold is not very marked, but Signor Stringher observes that the Bank of Italy "is not alone in the world, and we must not be at a lower level than other central banks of issue, which intend to give to their notes a real guarantee. We must not be in a hurry, but we must persevere patiently and continually in the same direction". Which words mean, if they have any meaning at all, that the Bank of Italy's future gold policy will be to increase slowly her gold and diminish her gold securities reserves, so as to be able to abandon the present gold exchange standard in favour of a gold bullion or gold standard.

The replacement of Signor Volpi by Signor Mosconi as Finance Minister has taken financial circles by surprise, but has not had any marked influence on business. Signor Mosconi is a Senator and Councillor of State. He was a Prefect, and is considered as a new man in financial problems. Chamber of Deputies and Senate Budget Commission's reports urging economies in the public budget perhaps influenced the appointment. Certainly he has a very useful task before him in reduction of public expenditure.

165.

ITALY

WHEAT DUTY INCREASE – FOREIGN TRADE – INDUSTRIAL
CONDITIONS – UNEMPLOYMENT*From our Correspondent*

Turin, September 18

Suddenly, by a decree dated September 12th, the Custom duty on wheat has been raised from 75 to 110 gold lire per ton. A Press communiqué states that on July 24, 1925, when the duty on wheat, which during the war was put on the free list, was restored at the pre-war rate of 75 gold lire per ton, the gold lire equalled 5.28 paper lire, and the wheat duty was paid at the rate of 396 paper lire per ton. Therefore the present 110 gold lire duty, being equivalent, at the new foreign rate of 367 paper lire against 100 gold lire, to 403.70 paper lire, cannot be said to be higher, as far as the paper lire incidence is concerned, than the old 75 gold lire duty. The statement would mean that the purchasing power of the paper lire has not increased since the middle of 1925; which is contrary to experience, as the wholesale index number has decreased from an average of 646.2 for 1925 to 485.2 at the end of August, 1928. A better explanation of the increase of the wheat duty is to be found in the course of internal wheat prices, which from about 150 lire in May decreased to 118 in the first days of September, and to even as low as 115-112 lire in certain rural markets. In view of the next seeding campaign the Government deemed it necessary to assure agriculturists against further price falls, as, in spite of the battle of wheat, foreign imports from August, 1927, to July, 1928, amounted to 2.3 million tons, or about the same as in 1926-7 and not much less than in the previous five years' average. Big wheat imports are ascribed to the increase of internal consumption, and the Provincial Economy Council of Novara observes that the milling regulations, providing that the flour extracted from a given weight of wheat shall not be less than 82 per cent., have

165. September 29, 1928, pp. 556-557. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

had effects very divergent from the wheat savings aimed at. The by-products of the milling industry being less, and therefore more costly, agriculturists sometimes give bread flour to cattle; and the human utilisation of bread being less perfect, there is more waste in bread consumption. In some Press comments the increase in the wheat duty is considered as an anticipation of a sliding scale aiming at maintaining stability in internal wheat prices.

Foreign trade has had an interesting evolution in the first seven months of the year. The following table shows the results in millions of lire:

	First Quarter	Second Quarter	July
Imports - 1927	6,173.7	5,632.2	1,477.1
1928	5,086.7	6,018.4	1,735.3
	- 1,087.0	+ 386.2	+ 258.2
Exports - 1927	3,949.0	4,041.0	1,143.8
1928	3,408.6	3,589.4	1,001.7
	- 540.4	- 451.6	- 142.1
Excess of imports over exports - 1927 ...	2,224.7	1,591.2	333.3
1928 ...	1,678.1	2,428.9	733.6
	- 546.6	+ 837.7	+ 400.3

From a "mercantilistic" point of view the first quarter marked in 1928 a distinct improvement (a decrease of the excess of imports over exports of 546.6 million lire), while the second quarter, and still more the month of July, were characterised by a net loss of 837.7 and 400.3 million lire respectively. The explanation of this change is more reassuring. It is that industry at last is having a revival, and therefore is induced to resume its long-delayed imports of raw materials. If this is true, exports should begin to increase in a few months. In the first six months of the year imports of "free" coal decreased from 6,226,290 to 3,981,685 tons (German "reparations" coal increasing, however, from 1,436,287 to 2,185,957 tons); of broken iron and steel from 357,864 to 317,739 tons; of pig-iron from 71,311 to 55,977 tons; of machines and their parts from 44,251 to 38,623 tons; of mineral phosphates from 503,952 to 285,153 tons; of wood from 953,209 to 777,996 tons; and of mineral oils distillations by-products from 224,959 to 188,492 tons. There were increases of imports of raw cotton from 119,072 to 122,956 tons; of natural wool from 24,674 to 32,685 tons; of dried cocoons from 335 to 885 tons; of pig and broken copper from 8,125 to 13,299 tons; of benzine from 110,134 to 148,514 tons; of nitrate of sodium from 39,480 to 58,820 tons; of potash manures from 12,160 to 27,800 tons; of cellulose from 53,530 to 85,268 tons. Noteworthy progress

was recorded in textile exports. Cotton yarns rose from 9,614 to 12,350 tons; cotton piece goods from 21,207 to 24,291 tons; wool piece goods from 2,083 to 2,648 tons; artificial silk from 8,142 to 8,517 tons; and silk mixed piece goods from 1,904 to 3,430 tons.

A good index of the industrial situation is provided by the production of electrical energy in 1927 and 1928. In millions of Kwh, the months from January to June compare as follows: – January, from 618 to 638 (increase 3.23 per cent.); February, from 563 to 611 (increase 8.52 per cent.); in March, from 600 to 654 (increase 9 per cent.); in April, from 580 to 629 (increase 8.44 per cent.); in May, from 629 to 705 (increase 12 per cent.); and in June, from 609 to 697 (increase 14.45 per cent.). Unemployment is decreasing, as is shown by the following table:

	1927	1928		1927	1928
January	225,346	439,211	May	216,441	306,629
February	259,055	413,383	June	214,603	247,021
March	227,947	411,785	July	263,091	234,210
April	215,316	356,795			

It will be seen that the comparison between the two years has at last turned in the right direction. The general conclusion regarding Italian industrial conditions is that the present outlook is not without distinct elements of hope.

166.

ITALY

ABOLITION OF FLOUR MILLING REGULATIONS – PUBLIC WORKS – INCREASE OF TAXATION – RECLAMATION OF LAND – RAILWAY TRAFFIC

From our Correspondent

Turin, October 22

In my last letter I quoted criticisms of public economic bodies against the milling regulations, which provide that the flour extracted from a given weight of wheat shall not be less than 82 per cent. A few days afterwards a

166. November 3, 1928, pp. 798-799. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

royal decree, recognising the value of such criticisms, abolished all these regulations, so that white bread has made its reappearance on Italian tables, and agriculturists are again able to utilise rationally the by-products of wheat milling. The abolition of the milling regulations is a sequel to the good wheat production of the current year—62 million tons, against 53 million tons in 1927. It is hoped that imports of wheat can be substantially reduced. Much will depend, however, on the level of future prices.

This is by no means the only important step recently taken by the Government in the economic sphere. A plan of extraordinary public works for next winter was approved by the Cabinet to a cost of 235 million lire.

Another 315 million lire are to be spent on the opening of a road on the beautiful coast of the Garda-see, so as to make a continuous connection between Brescia and Riva. The works included in the general plan are, in addition to the normal works already provided for in the current Budget, railway extensions and electrifications, reclamation of submerged land, public roads, post-office buildings, water supply, canals, port improvements, &c. The plan aims at limiting and possibly counteracting the usual tendency to an increase in unemployment during the winter months. As reported in my last letter, unemployment fell until July, when it reached a minimum of 234,210. At the end of August the figure was somewhat higher at 248,100, but less than the 291,821 figure of August, 1927. Financing of the emergency plan of public works is to be effected by taxation. Here is a list of the increased taxes:—

1) The special tax on bachelors is doubled as from January 1, 1929. Bachelors will pay as the base tax 70 lire between 25 and 35 years, 100 lire if between 35 and 50 years, 50 lire if between 50 and 65 years. Further, if they are assessed by the tax on total income, they will pay, in addition to the ordinary tax, a sur-tax of 50 per cent. instead of 25 per cent. of the said tax. For a taxpayer with an income of 1,000 lire (£ 1,080 sterling) the special sur-tax will amount to 2,000 lire (about £ 21 12s); for a bachelor with an income of 1,000,000 lire (£ 10,800 sterling) the sur-tax paid will be 50,000 lire (£ 540).

2) The price of common salt (a State monopoly) is raised from 0.50 lire per kilogram to 1.50 lire. The prewar price (when there was no monopoly) was 0.40 gold lire, and left a good margin for profit or taxation, the cost of production being then about 0.10. To-day the price of 0.50 paper lire leaves no margin at all. However, having become a State monopoly, common salt production and sale was no more subject to taxation. The raising of the price to 1.50 lire restores salt to its traditional position.

3) The tax on wine, beer and other alcoholic beverages is increased by 0.10 lire per litre.

4) The excise on alcohol is increased by 300 lire per hectolitre.

5) The licence duties on saloons are to be paid yearly, instead of at longer intervals, and are substantially increased. There are in Italy more saloons open than is desirable; the number of wine sales shops was 163,000 and of liquor saloons 71,000 at October 15, 1928. The existence of four wine and two liquor saloons per thousand inhabitants is surely excessive.

The Bill for a plan of redemption of unreclaimed land, afforestation, reservoir building was laid on the table of the Chamber at the beginning of October. A sum of about 7 million lire is to be spent on this plan under the supervision of the Institute for Land Reclamation presided over by ex-Minister De Stefani. As a sequel to the Bill, the Premier has sent a letter to the Prefects of the provinces, urging them to prepare plans for carrying on the reclamation works. In short, State will pay about 75 per cent. of the expenditure and land. The proprietors are expected to pay the remaining part of the whole cost. If the proprietors are not forthcoming, the Prefects are authorised to act on their behalf, so that the reclamation shall not be unduly retarded.

Thus the State assumes more and more the supreme direction of the economic life of the country.

No noticeable variations in the economic indices quoted in my last letter are to be recorded. Railway traffics show signs of improvement. The daily average number of cars loaded, which was 18,622 in January, 1928, against 20,329 in January, 1927, kept on increasing uninterruptedly to 22,514 in August, 1928, against 21,645 in August, 1927. The average number of circulating cars, which in 1927 decreased from 133,506 in January to 127,292 in August, increased in 1928 between the same months from 115,494 to 130,748. In the same period the tonnage loaded on private account at the Italian ports on railway cars decreased in 1927 from 1,078,135 to 894,989 tons, and increased in 1928 from 916,534 to 1,097,102 tons. These figures seem to point to a gradual revival of the traffic after the revaluation and stabilisation crisis.

167.

ITALY

OPTIMISM ON STOCK EXCHANGE – NEW ISSUES – GOLD POLICY
OF THE BANK OF ITALY – THE POPULATION PROBLEM*From our Correspondent*

Turin, December 5, 1928

As a sequel to the big American post-election boom there has developed here a boomlet, originating with the Fiat shares. As the New York price of the Fiat bonds with warrant – *i.e.*, with the right of conversion into a certain number of shares – was very much higher than the Turin price, sometimes as much as 150 lire per share higher, numerous purchases from American sources began, and more were talked of. The price of Fiat shares, which at December 31, 1927, was 390 lire, and hovered up to August of the present year between 385 and 438, slowly increased to 463 at September 29th, to 506 at October 27th and suddenly jumped up to spectacular heights in November, touching 693 at November 24th, and even surpassing the 700-lire level. To-day it is about 635. Some other international securities followed suit; between October 27th and November 24th the Chatillon Silk Company (artificial silk) rose from 236 to 285 (to-day 273), the Montecatini (chemical fertilisers) from 279 to 303 (to-day 296.50), the Pirelli (rubber cables, &c.) from 833 to 850 (to-day 925). The influence exercised by such rises on the general trend of Bourse affairs and prices was, however, moderate; between October 27th and November 24th the bank shares index number rose from 108.33 to 111.95, navigation and transports from 80.92 to 81.19, textiles from 43.22 to 46.46, minerals, iron and steel and engineering from 90.71 to 104.40, electrical from 102.14 to 103.45, agricultural and real estate from 80.90 to 81.11, food and miscellaneous from 91.82 to 97.58, and the general index from 86.20 to 90.43. This present level may be deemed low or high, according to the date selected for comparison. It is much higher than the bottom of 57.63 touched June 25, 1927, and certainly less than the basis level 100, which relates to December, 1925.

167. December 15, 1928, pp. 1110-1111. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

The only prudent conclusion to be drawn from the above is that there is afloat an optimistic tendency in the Italian stock exchanges, which is a potent factor in easing new issues of joint-stock shares and bonds. The compilers of the monthly bulletin of the Banca Commerciale Italiana have made a very interesting review of the official figures of new investments, increases of capital, winding-up, and capital reductions, and have reached the conclusion that in the first ten months of 1928 the savings asked for by the joint-stock companies share issues have been 3,000 million lire, more than three times the amount asked for in the corresponding months of 1927. Only 500 out of 3,000 millions were drawn from repayments of capital or proceeds of winding up of old companies. The rest was fresh money. In addition, there were issued in the first ten months of 1927 bonds for 865 million lire, against 415 for the whole 1927.

The problem of the preference to be given to the gold-exchange or gold-bullion system is not discussed in Italy at present; but it may be interesting to give a few figures about Bank of Italy reserve (in millions of lire):

	Jan. 10	April 20	Nov. 10
Gold	4,547.1	4,734.2	5,051.9
Gold credits on foreign countries	6,694.8	6,291.5	3,978.6
Foreign States Treasuries gold bills	864.0	1,493.1	2,059.8
Total reserve	12,105.9	12,518.8	11,090.3

There is a continuous decrease of foreign gold credits, presumably commercial bills purchased at New York or London or current gold deposits in the same places. Foreign Treasury bills are preferred as an investment of sums held in foreign countries, presumably in view of their higher net yield. But the most important feature is the increase of the gold held in cash. At present the foreign exchanges are kept within the statutory gold points by purchases and sales of foreign bills; but, as in France, it seems to be the policy of the Bank of Italy gradually so to increase the gold reserve as to be able ultimately to maintain exchanges at par by the use of bullion only, independently of any foreign bills reserve.

The population problem is always in the forefront of public discussion. Much attention has been attracted by a computation which purported to show the decrease between 1877-86 and 1920-23 of new-born babies in proportion to women between 15 and 45 years. The average decrease in nativity was for the whole kingdom 19.38 per cent. Only one region, Southern Calabria, can boast of an increase, of 4.20 per cent. Other southern or central regions show moderate decreases: 0.16 per cent. for Basilicata, 1.42 per cent. for Umbria, 5.51 per cent. for Campania, 6.73 per cent.

for Puglie, 7.85 for Abruzzi, 7.89 for Marche. But even Sicily shows a decrease of 29 per cent.; and in only one northern region, the Venetian provinces, is the decrease moderate (5.95 per cent.). Elsewhere the decreases are formidable: 24.85 for Tuscany, 30.77 for Lombardy, 42.76 for Ligurian provinces, and, worst of all, 47.20 for Piedmont. In the last regions the French two-babies custom is rapidly spreading. In a trenchant article the organ of the Premier, the *Popolo d'Italia*, accused the big cities of being responsible for the decrease of the birth-rate. Already last year a royal Decree forbade the erection of new factories in cities of more than 100,000 inhabitants. A Bill was brought yesterday before the Chamber of Deputies, which gives to the Prefects – the representatives of the Government in the provinces – very wide powers in opposing the increase of population in the big cities. When workers are to be dismissed the first to go are ex-rural men; unemployed men are to be sent back to their rural homes. Labour offices must be opened in all provinces, and they must give preference to city-born men. Peasants must be discouraged in every possible way from immigrating into cities. Ruralisation is deemed the necessary condition of waste-lands reclamation and of the increase of agricultural production.

168.

ITALY

STOCK EXCHANGE – BANK RATE – FOREIGN TRADE – INDUSTRIAL
ACTIVITY – SUGAR IMPORT DUTY

From our Correspondent

Turin, January 6

The November boomlet was short-lived. The general average of variable dividend securities was at the end of December 88.29 (basis 100, December, 1925), which is higher than the 73.15 level of the end of December, 1927, but lower than the maxima of 90.56 and 90.43 reached at the end of May and November, 1928.

During the first week of the New Year there was a lively market in Fiat

168. January 12, 1929, pp. 60-61. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

shares, which, having closed the year at 590 lire, shot up to 700 lire on favourable news of rising New York quotations; but at the week-end fell to 650. Bank of Italy shares went badly, losing about 180 lire per share, notwithstanding the free distribution of one share to every three old ones. It appears that a special technical reason for the fall of the leading Italian security was the prohibition of future dealings in it. Only cash dealings can be made henceforth in Bank of Italy shares, with day-to-day prolongations and no end of month settlements. The prohibition of futures aims at excluding speculation from the market of a security which is issued by a public body; but it took the market by surprise, and forced sales. Reviewers are searching for explanations of the Bourse depression. The rise of the official rate of discount from $5\frac{1}{2}$ per cent. (June 25, 1928) to 6 per cent., which was announced this morning, can be dismissed as a real cause of the depression, as the Bourse market is financed quite independently of the Bank of Italy, and the sums needed for prolongations are to-day truly paltry.

The rise of the rate of discount appears to have causes deeper than the purely financial ones. In my last letter, while noting the increase in the cash gold reserves of the Bank of Italy from 4,547.1 million lire at January 10, 1927, to 5,051.9 million lire at November 10th, I stated that other gold reserves (gold foreign credits and foreign States bills) had decreased between the same dates from 7,558.8 to 6,038.4 million lire. A month later, at December 10, 1928, while the gold reserve was stationary, the foreign credits and bills reserve had further decreased to 5,944.2 million lire. The Bank of Italy is therefore acting very wisely in raising the rate of discount to counteract the outward movement of its gold reserve.

The easiest explanation of the decrease in the reserves is the foreign trade balance. The excess of imports over exports, which was 4,392.5 million lire in the first eleven months of 1927, increased to 6,789.6 million lire in the same period of 1928. A great part of the gap was presumably filled by the usual invisible items of credit: travellers' expenses, freights and, though diminishing, emigrants' remittances. The balance must be made up by opening of foreign short credits, a few long-term issues, some sales of Italian securities (Fiat, Snia, Pirelli, Isotta Fraschini, Montecatini, &c., shares); and, lastly, sales of gold credits and bills of the Bank of Italy reserves.

There are, however, reasons for believing that the big excess of imports over exports will in due time bear some good effects. In part the excess is due to the bad 1927 harvest, which forced exceptional imports of wheat and other foodstuffs in 1928; this should not be repeated in 1929, as the 1928 wheat harvest was better. Partly, however, the excess is due to the

increased imports of raw materials and half-manufactured products. In the first ten months of the year imports of raw jute increased from 42,104 tons in 1927 to 47,973 tons in 1928 (131.7 to 144.1 million lire), of raw cotton from 173,411 to 189,932 tons (1,419.7 to 1,797 million lire), of raw wool from 30,881 to 38,895 tons (484.4 to 617.3 million lire), of dried cocoons from 1,042 to 2,023 tons (from 45.3 to 79.7 million lire), of broken iron, pig-iron and steel from 599,181 to 720,060 tons (244.4 to 240.2 million lire), of copper and broken copper from 48,947 to 65,200 tons (303.7 to 391 million lire), of cellulose from 94,075 to 141,158 tons (138.1 to 173.2 million lire). Industrialists, who during the revaluation process of the lira in 1927 had bought less and less raw material (the excess of imports, which was 870.6 million lire in January, 1927, sank to 144.0 in August), but had drawn on their stocks without replenishing them, began to take courage in past spring, when the stabilisation was some months old and the monetary situation once more seemed stable. The replenishing of stocks, with the consequent accelerated imports of raw materials, has inevitably put a pressure on the Bank of Italy reserves; but if the above analysis is correct, and no unknown factors are at work, exports should in their turn increase in 1929 and change the direction of the gold currents.

Reports from the industrial sections indicate an increase of activity. The employment percentage (number of men working in September, 1926=100), which was 94.7 per cent. at the end of August, increased to 95.6 at the end of September and to 96.3 at the end of October. Almost all industries report progress except silk spinning, shipbuilding and cement. Unemployment, after decreasing from the maximum of 439,211 at the end of January, 1928, to 234,210 at the end of July, increased again to 283,379 at the end of October, but is lower than at the end of October, 1927, when the figure was 332,240.

The wheat import duty was increased last September from 75 to 110 gold lire per ton, and the duty on sugar is now also raised from 24.75 to 36 gold lire. The duty was 28.85 gold lire before the war, was suspended during the war, abolished in 1923, put at 9 lire in 1925, and afterwards steadily increased. These increases will surely aid the extension and better culture of wheat and sugar-beet lands. But the crucial question is whether they will also aid the lowering of the cost of living, and therefore the cost of those agricultural and industrial goods which we must increasingly export in a competitive world if we are to pay for the increasing imports needed by our expanding population.

169.

ITALY

FOREIGN TRADE. — Excluding precious metals and Reparations deliveries and adopting the corrected figures of the Central Institute of Statistics, the figures for 1928 and previous years were as follows, those for November and December, 1928, being provisional:

(In Millions of Lire)				
	Imports*	Exports*	Excess of Imports over Exports**	
			(a) 968	(b) 968
1910-13	3,496	2,528	9,363	3,049
1920	18,105	8,742	7,927	2,012
1921	17,227	9,300	5,067	1,240
1922	15,765	10,698	4,432	1,055
1923	17,189	12,757	2,852	643
1924	19,381	16,529	5,185	1,071
1925	26,200	21,015	4,704	939
1926	25,879	21,175	4,759	1,259
1927	20,374	15,615	7,497	2,042
1928	21,990	14,493		

* In paper lire. (a) Paper lire. (b) Gold lire.

The increase in the imports was due partly to the bad agricultural yields in 1927, which caused abnormal imports of foodstuffs, and partly to the increase of raw material imports in comparison with 1927, when industry was shy of embarking on big imports owing to the revaluation process. The increase in raw material imports should, in due time, lead to increases in exports. Already in November and December, 1928, exports were higher than in the corresponding months of 1927. The excess of imports over exports was bigger than in the six preceding years and in the pre-war years. If, however, we calculate it not in present gold lire, but in gold pre-war lire, according to the indices of the Milan Economical Board, imports shrink to 4,354 millions lire, exports to 3,032, and the excess to 1,322, a proportion of imports not much higher than in 1910-13.

169. February 9, 1929, pp. 16-17. The article, unsigned, was published in the supplement: *The Economist. Commercial history & Review of 1928*. Its attribution to Luigi Einaudi is certain because the original manuscript, without date but entitled "Italy", is kept in the Einaudi archives.

CROPS. – Agricultural production had a mixed record in 1928:

	(In Thousands of Tons)			
	1909-13 (Average)	1923-29 (Average)	1927	1928
Wheat	4,989.8	5,727.7	5,329.1	6,221.5
Maize	2,548.6	2,592.6	2,219.6	1,650.7
Rice	475.0	627.6	696.1	631.5
Grapes	7,096.6	6,883.7	5,795.8	7,496.0
Cocoons	40.8	509.0	50.7	—
Potatoes	1,654.8	2,033.5	1,945.3	1,489.8
Hemp	83.5	92.5	83.0	85.7

Maize and potatoes felt the consequences of the terrible drought; grapes did well for the same reason; and better methods of cultivation brought good results for wheat, making it possible to surmount the difficulties of weather.

INDUSTRY. – Perhaps the best index of industrial activity is the production of electrical energy, which increased from 6,720.2 million kilowatts in the first 11 months of 1927 to 7,573.8 in the corresponding months of 1928. Imports of oil, benzine, and oil derivatives increased from 751.105 tons in the first 11 months of 1927 to 810,170 in the corresponding period of 1928; while coal decreased from 10,253,046 to 8,325,356 tons. But in 1927 stocks were being replenished after the British coal dispute. In the same period imports of jute increased from 46,688 to 50,484 tons; of raw cotton from 191,287 to 211,767; of natural wool from 32,434 to 40,599; of washed wool from 3,961 to 5,011 tons; of dried cocoons from 1,287 to 2,660 tons. Broken iron, steel, and pig-iron imports increased also from 651,526 to 801,906; copper from 53,821 to 69,575; lead from 14,424 to 24,575 tons; spelter from 8,821 to 9,304 tons; while aluminium fell from 2,918 to 668; and tin from 3,946 to 4,027 tons. Imports of nitrate of sodium increased from 46,119 to 70,452; of sulphate of ammonium from 12,344 to 13,475; of potash from 22,426 to 46,939; and other chemical fertilisers from 142,846 to 144,067; while those of mineral phosphates fell from 816,810 to 560,092 tons, and calciocyanamide from 29,593 to 21,196.

THE PASSING OF THE REVALUATION CRISIS. – The gradual passing of the revaluation crisis, which was at its worst in the concluding months of 1927 and in the first quarter of 1928, is indicated by the fact that the 1928 imports of raw materials, in contrast to those of 1927, show more increases than decreases. The liquidation of weak firms is continuing; monthly average failures, which were 617 in 1913 and 654 in 1926 and had risen to 886

in 1927, rose further to 933 in 1928. The number of unemployed, which varied in 1926 between 79,678 (June) and 181,493 (December), and in 1927 between 214,603 (June) and 414,283 (December), increased further in January, 1928, to a maximum of 438,211, decreasing regularly to a minimum of 234,210 in July, and rising in December to 363,551, or 51,000 less than the corresponding months of 1927.

Some index numbers are given below:

	Bank Notes Issued *	Paper Price of Gold	Wholesale Prices		Cost of Living
			In Paper Lire (average)	In Gold Lire	
1913	100	100	100	100	100
1921	845	457	538	117	541
1922	788	409	529	129	500
1923	755	421	536	127	494
1924	793	443	553	125	526
1925	847	486	646	133	611
1926	803	501	654	131	653
1927	787	378	527	139	567
1928	757	367	491	134	532

* End of the year.

As to the wages, no up-to-date statistics are available for number index-making for 1928. It is probable that, while in 1926 wages varied between five and six times pre-war level, they are to-day about five times.

SAVINGS AND NEW ISSUES. — Deposits in postal saving banks, which had risen to 504 at the end of 1926 (basis 1913=100) had decreased during the revaluation crisis to 460 October, 1927. In November, 1928, they were again at 494. Deposits in ordinary saving banks rose similarly from 475 in June, 1927, to 562 in November, 1928. Deposits in the six largest ordinary banks between October, 1927, and October, 1928, rose from 569 to 635; of the People banks from 652 to 676; of the regional banks from 776 to 816. Net increases in the capital of joint-stock companies, which amounted to 2,128 million lire in 1923, 4,895 in 1924, 8,032 in 1925, 3,931 in 1926, falling to 1,840 in 1927, increased again to 2,698 in 1928. In 1928 the issue was also authorised of 1,187 million lire of bonds and debentures.

MONEY AND STOCKS. — The official rate of discount, which had remained for years at 7 per cent., was lowered to 6.50 per cent. on March 5th, to 6 per cent. on April 1, and to 5.50 per cent. on June 25th, remaining there until, in the first days of the New Year, it was again raised to 6 per

cent. Correspondingly, the private rate of discount from 8-8.50 per cent. at the beginning of the year decreased in summer and autumn to 5.25 per cent., again to rise slightly at the end of the year to 5.50 per cent. Prolongation rates, which had fallen to 5.50 and 6.25 in July and October, hardened somewhat in November and December to 6 and 7 per cent. The Bourse improved. According to the Bachi index number (base December, 1913=100) the highest level was reached in February, 1925, at 183.05. After that date there was a more or less continuous sinking of quotations, until the low-water mark was reached at 97.80 in June, 1927. In December, 1927, the index number was 123, rising to 129.40 in January, 1928, to 151.28 in May, and closing the year at 141.34.

PUBLIC FINANCE. — The Treasury accounts for the financial years 1924-25 to 1927-28 closed with surpluses of 417,468, 436, and 497 million lire. The first semester of the current 1928-29 financial year closed with a surplus of 21 million lire. State internal debt, which had reached a maximum of 96,163 million lire on June 30, 1924, and was 90,361 millions on June 30, 1927, had fallen, thanks to the cancellation of the Treasury debt to the Bank of Italy as a consequence of the revaluation of the bank's gold reserves, to 86,423 millions at December 31, 1927. At December 31, 1928, the total debt is 87,006 million lire, to which must be added the 100 million dollars of the Morgan Loan, reduced in the meantime to 95,177,650 dollars.

170.

ECONOMIC READJUSTMENT IN ITALY

In view of Italy's indebtedness to her former allies, the service of which amounts in the case of Great Britain to an annuity of four and a half million pounds for 62 years, the state of her foreign balance of payments is of substantial international interest. We publish below an article from our Italian correspondent which throws an interesting light on recent developments in the position.

The problem of the international balance of payments in Italy continues to be a subject of investigation and discussion among experts. Ac-

170. February 23, 1929, pp. 387-388. The article, unsigned, was published in the section: "Leading articles". Its attribution to Luigi Einaudi is probable according to Graham Hutton.

according to one of the best authorities, Professor P. Jannaccone, the average yearly debit balance for the years 1915-1918 was 6,707 million lire, and was met by State foreign loans and abundant purchases of Italian paper lire by foreigners, who opened current accounts in Italian banks, until the hoped-for rise of the lira closed the transaction with profit.

After several difficult years a new equilibrium was reached in 1922-24. The average yearly figures for that period were:

	(Millions of Lire)
Excess of imports over exports	Dr. 5,333.33
Net interests and dividends due to foreigners	Dr. 723.33
Net shipping freights due to Italy	666.66
Net emigrants' remittances	2,466.66
Net foreigners' expenditure in Italy	2,500
St. Peter's penny and miscellaneous	400
	Dr. 23.33
Foreign securities purchased and other foreign investments ...	Dr. 381.66
Public and private debts reimbursements	Dr. 216.66
Public foreign loans	15.66
Short private debts and foreign lira credits	606
	23.33

The following years 1925-27 witnessed no very marked deviation from the equilibrium thus reached; an equilibrium, moreover, which corresponded closely to the pre-war balance as calculated by Signor Stringher for 1910; when debits and credits balanced around a figure of 1,264 million lire, or about one-fifth of the new 1922-24 average.

A new situation seems to have arisen in 1927 and 1928 during the revaluation process and after the stabilisation of the lira. No authoritative balance has been as yet compiled, but the fragmentary available items are viewed with a somewhat anxious interest. The excess of imports over exports was as follows, in millions of lire:

	Official rough figures	Official figures as corrected by the Central Statistical Institute	
		Paper Lire	Gold Lire
1925	7,926	5,185	1,071
1926	7,214	4,704	939
1927	4,759	4,759	1,259
1928	7,496 *	7,496 *	2,042 *

* Provisional.

As the true figures to be taken into account are the corrected ones, the rise in the excess of imports over exports is remarkable. It is not probable that the net interests and dividends due to foreigners have fallen below the 1922-24 level (723 millions), nor that the total of reimbursements falling

due according to the amortisation plans is less than the 216 millions then registered. Perhaps these items may have increased, owing to interest and amortisations of foreign loans issued since 1924. In any case, it is not likely that the total debts due from Italy, apart from investment in foreign countries, were less than 8,500 million lire. Against this debit total there is one credit item which has certainly shrunk.

The stabilisation of the lira, abolishing any chance of appreciation in lira holdings, has diminished the incentive for emigrants to convert dollars and other gold savings into lire. The decrease of emigration likewise dried up some sources of remittances. It appears that in recent years there has set in an opposite movement towards calling up old remittances by emigrants who have become permanent residents in foreign countries. It is therefore uncertain to what extent this item, which in the past was a substantial factor on the credit side of the Italian balance of payments, may now be regarded as an asset. If we assume that other items have not changed, i.e., net foreigners' expenditure (2,500 millions), net shipping freights (666-66), St Peter's penny, viz., gifts to the Holy See and miscellaneous, 400 millions, (and some doubts are reasonable about freights, owing to the merchant marine world crisis), it seems that an estimate between 3,500 to 5,000 million lire may be reached on the credit side of the balance. There remains a gap of from 3,500 to 5,000 to be filled. As Italian loans issued in foreign countries in 1928 were negligible the gap must have been filled by several sources: sales of Italian joint-stock companies' shares, short credits obtained by Italian banks and firms, sales of bills and assets held by Italian firms in foreign countries and sales of bills and assets by the Bank of Italy. Only this last item can be ascertained exactly: the total gold and gold assets of the Bank of Italy decreased by 1,035.1 million lire, from 12,105.9 at January 10, 1928, to 11,070.8 at December 31, 1928.

As to the causes of the exceptional state of the balance of payments, Professor Mortara, in a thoughtful essay in the *Giornale degli Economisti*, is of opinion that an exceptional increase in imports, not a decrease of exports, is the main cause of it; that the imports increased mainly owing to bad agricultural yields and to replacement of industrial stocks which fell excessively during the 1927 revaluation crisis; that the growing imports of raw materials are an index of increasing industrial activity. His forecast is that in 1929 food imports will again be heavy, that raw material imports will increase further, and that the improvement in industrial activity may lead to increased exports of manufactures. Italy appears to be passing through a temporary crisis of adjustment, when imports are increasing to-

ward capital equipment of a growing industrial and agricultural activity, but the consequent flow of export goods is as yet not abundant enough. An analogous process went on in Germany in the past two years, and it will perhaps prove in the end to have been for the good of both nations. The technical difference between Germany and Italy is probably that Germany relies on long-term indebtedness, whereas Italy, more optimistically, is content with short credits. Perhaps there are abroad hidden resources, the property of Italian firms and individuals, accumulated in war and post-war years, on which Italy can draw. If and in so far as this is so, the indebtedness is only apparent and amounts to nothing more than the repatriation of national assets, temporarily located in foreign countries. The speech of Signor Stringher at the general meeting of the Bank of Italy, due at the end of February, is this year awaited with unusual interest, as it is widely hoped that it will throw light on this problem of international payments, which is at the moment the most momentous problem with which Italy is confronted.

171.

ITALY

DEBT REDEMPTION – PUBLIC EXPENDITURE – LEVEL OF TAXATION

From our Correspondent

Turin, March 5

An interesting explanation of the torpid state of Stock Exchange quotations in Italy and the difficulties experienced here in the return to prosperity have been given in the February number of *Rivista Bancaria*, by Signor Mazzucchelli. Put in a nutshell, the thesis, which has been much discussed, is that the State must increase taxation so as to divert into the exchequer private income which would have been expended, on condition that the exchequer does not spend it, but devotes it to the amortization of public debt. The external war debt is in Italy amortized through the instrumentality of a special fund, into which the German war indemnities are paid. The amortization of the internal public debt is provided for by an-

171. March 16, 1929, p. 571. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

other special fund, consisting mainly, in addition to various miscellaneous items, of the yearly surpluses of the Budget. Now the opinion is gaining ground that the reduction of public debt must not be limited to the possible surpluses; but that a special increase of taxation should be enacted. Signor Mazzucchelli maintains that the extraordinary prosperity of the United States in after-war years is not to be attributed to plentiful national resources or to the inventiveness of industry, which having always existed, cannot explain the new phenomenon, but to the big reimbursements of public debt which convert a part of current income from expenditure to productive channels. In the same way the rapid recovery from the revaluation and stabilisation in France and Belgium is explained by the same authority as a consequence of the outpouring of taxation money into the capital market through the amortization process. Tax first and amortize next: this is the new financial creed. Some cold water is perhaps thrown on the theory by a perusal of the figures of public income and expenditure. I quote, from the public treasury accounts, the usual double set of figures for the last seven years, adding for comparison's sake the last pre-war year (in milliards of lire).

	Budget			Treasury Accounts		
	Revenue	Expenditure	+ or -	Incomings	Outgoings	+ or -
1913-14	2.57	2.73	- 0.16	2.62	2.87	- 0.25
1922-23	19.16	22.21	- 3.05	27.50	40.73	- 13.23
1923-24	20.98	21.40	- 0.42	26.15	28.91	- 2.76
1924-25	20.69	20.27	+ 0.42	22.41	19.50	+ 2.91
1925-26	21.29	20.82	+ 0.47	21.50	18.79	+ 2.71
1926-27	21.45	21.01	+ 0.44	20.28	19.53	+ 0.75
1927-28	20.07	19.57	+ 0.50	19.05	20.59	- 1.53
1928-29*	10.82	10.78	+ 0.04	10.45	12.07	- 1.62

* Seven months from July 1, 1928, to January 31, 1929.

As I have repeatedly explained, the first "budget" set of figures is the rational one, because it contains all the revenue, which has gone into the exchequer on the current year account, and the rest, usually small, which remains to be cashed at the end of financial year; and on the expenditure side, all sums expended and remaining to be spent on the year's appropriations. To study the yearly variations of the budget results severally year by year this is the set of figures at which we must look. The second "Treasury accounts" set of figures is also useful because it pictures the *de facto* incomings and outgoings of the exchequer, without distinction as to the appro-

priation year. In the second set sums are registered when they come in or are paid, even if they refer to a previous year.

The first set proves that equilibrium has come to stay and has not been shaken even by the revaluation crisis. The second set indicates that some expenditures which were budgeted for in past years, and were not paid in the appropriation year (e.g., public works only just completed) are now falling due. The exchequer, which in 1924-25 to 1926-27 paid less than was appropriated, must now pay the arrears. It seems that the present Finance Minister, Senator Mosconi, is accelerating payments of arrears. As arrears are also a debt, their payment reduces public debt just as much as extinction of consols; and if payment is made to creditors for public works or goods sold to the State it should have on the money market about the same effect as reduction of public debt.

It seems doubtful whether it is possible, at the present time, to increase taxation appreciably in order to reduce on a grand scale public debt proper, as distinct from reduction of arrears. Professor Mortara, in the chapter on Finance in his forthcoming *Prospettive Economiche*, has pointed out that public revenue which appears to have decreased from 21.3 milliards in 1925-26 and 21.4 in 1926-27 to 20.1 milliards in 1927-28 has really increased, if we reduce all figures to the present stabilised lira, from 15.8 milliards in 1925-26 to 17.2 in 1926-27 and to 20.4 in 1927-28. This is a portentous increase of taxation of 29 per cent. in three years. Taxes, apparently stationary, are much more hard to pay than before revaluation. It is therefore very difficult further to increase taxes on the top of such a hidden increased pressure of public expenditure on national income. Mortara's guess at the proportion of public (State, local and corporations) taxation to the national income is to-day 24 per cent. against 12.5 per cent. in 1913-14. Probably there is no other country in the world which has so gallantly faced the consequence of the post-war world in which we live. Italians pay 24 per cent. on an average individual yearly income of £ 23-£ 24; the British 24 per cent. on £ 80; Frenchmen 22 per cent. on £ 47; Germans 18 per cent. on £ 51; Americans 7 per cent. on £ 152. As the burden of taxation diminishes with the increase of income, we are bound to conclude that Italian taxpayers cannot easily bear further taxes. Senator Mosconi's programme of reduction of public expenditure is not only the best suggestion for the reduction of the national debt, but the best also for creating a margin for savings, which is the only road to prosperity.

172.

ITALY

BANK OF ITALY'S REPORT — THE ALTERNATIVE TO OPEN-MARKET POLICY

From our Correspondent

Turin, April 9

The report read by Signor Stringher to the annual shareholders' meeting of the Bank of Italy has fully met the expectations of financial circles. The yearly averages of discounts, advances and day-to-day loans (through the clearing-houses) made by the Bank of Italy (in millions of lire) are as follows:

	Current Operations	Old frozen Credits	General Total
1919	1,730.7	—	1,730.7
1920	4,747.0	—	4,747.0
1921	5,851.7	—	5,851.7
1922	7,483.7	—	7,483.7
1923	7,417.0	—	7,417.0
1924	5,573.1	3,049.4	8,622.6
1925	7,402.5	2,854.3	10,256.8
1926	8,546.9	2,614.1	11,161.0
1927	6,641.2	2,484.9	9,126.1
1928	4,468.5	1,256.7	5,725.2

The item "frozen credits" fortunately is rapidly approaching extinction, and it is anticipated that the total will fall well under the one milliard limit before June 30, 1929. The increase in current operations until 1926 and the decrease in the last two years throw light on the old and the new monetary policy. The deflation in 1927 and the stabilisation in 1928 were accomplished through restriction of credit. Trade asked for less

172. April 27, 1929, pp. 924-925. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution is certain because the original manuscript, entitled "Governor of the Bank of Italy's report. Liquidation of 'frozen' credits and deflation. Immediate and remote causes of the reduction of gold securities reserve. An interesting verification of the classic Ricardian theory. The new supervising duties of the Bank of Italy on ordinary banks. The Italian alternative to open-market policy", dated "April 9, 1929" is kept in the Einaudi archives.

money as prices were decreasing and less money was needed. But the low 1928 level indicates also that the Bank of Italy did not come to the rescue of weak concerns. Some among the lesser banks failed in recent months, and there is some talk of difficulties in a big Trieste cotton textile firm and its associates; but the balance sheet of the Bank of Italy bears no traces of aid to those old inflationist remnants. With "old" frozen credits disappearing and the current operations at their lowest ebb, the situation of the Bank of Italy appears to be very strong indeed.

The main currents of change during 1928 may be traced as follows (in millions of lire):

Assets	December 31	
	1927	1928
Discounts, advances, and day-to-day loans	5,520.1	5,655.9
Old frozen credits	1,433.8	1,160.0
Gold reserve	4,547.1	5,051.9
Gold securities reserve	7,558.8	6,018.9
	19,059.8	17,886.7
Liabilities		
Notes	17,992.2	17,295.4
Other sight and current debts	4,041.6	3,426.1
	22,033.8	20,721.5

As I have quoted only the principal items from both sides of the balance sheets, totals do not tally exactly. But the trend is illuminating. Notes and other sight and current debts of the issue bank decreased by 1,312.3 million lire, because notes no longer have to be kept in circulation for keeping up old frozen credits. As fast as old losses are liquidated, notes go back to the Bank. Secondly, notes and other sight debts were reduced because the public (or on their behalf ordinary banks, which are the most important customers of the Bank of issue) tendered notes or drew on their current accounts against gold securities. The main change of the past year was indeed, the increase by 504.8 millions of coin or bar gold, and the decrease of 1,539.9 millions of other gold securities. The immediate cause of the net decrease of the gold reserve was, as Governor Stringher announced, the necessity of making up the deficit in our international balance of payment. Gold securities are sent out because notes were superabun-

dant after the monetary reform of December, 1927. Italian experience is perhaps one of the most interesting recent verifications of the Ricardian theory of the international movements of precious metals (gold securities are claims on cash gold). The steps were as follows:

1. Before monetary reform, internal prices were adequate at a level of, say, 120 lire to £ 1 sterling.

2. Notes and other sight debts were adequate in amount to the level of prices.

3. After stabilisation at the level of 92.7, gold internal prices are in 1928 still higher than foreign gold prices.

4. Therefore imports increased (by 1,666 million lire) and exports decreased (by 1,205 million lire).

5. A deficit arises which must somehow be paid. Customers of the Bank of Italy (either directly or through their banks) tender notes or draw on current accounts in payment for gold securities.

6. Gold securities of the Bank of Italy decrease, but notes and cheque circulation decrease also.

7. So far we have dealt with past history. Coming to prophecy, we may suppose that the decrease of note and cheque circulation, which, by the way, is continuing (at March 10, 1929, the total was further decreased to 19,804 million lire), reduced still further internal paper and gold prices. When the equilibrium between internal and foreign prices is finally restored, imports will again decrease and exports increase, and the balance of international payments automatically be adjusted. The monetary manœuvre will then be perfect.

As far as we can see, we are bound to compliment, Signor Stringher on his admirable silent handling of the process. Nobody cares for the cries of those last remnants of inflationism, who would have preferred to keep the notes for internal use and borrow the gold securities toward meeting foreign engagements. Signor Stringher, in refusing these absurd claims, has deserved well of his country.

Coming to less momentous matters, the report is interesting also because it deals for the first time with the duties of supervision of other banks, which legislative Acts of September 7 and November 6, 1926, entrusted to the Bank of Italy, making it not only the supreme bank but also the legal guardian of other banks. New banks, must now obtain the permission of the Bank of Italy, before starting operations; similarly, no new branches of established banks can be opened without her leave. Inspectors may be sent; abnormal increases of individual credits to single customers may be vetoed; balance sheets must be submitted every two months; a

due proportion between capital and deposits must be kept, and so on. During 1927, leaving out of account some small rural banks, the number of savings banks diminished by 35; of joint-stock banks and private banks by 43. The concentration and reduction movement is bound to continue. At the date of the report, Signor Stringher could predict that 491 banking concerns out of a total of 4,197 will disappear before long.

It is suggestive of the marked differences between our own experience and that of the United States, that in the whole 121 pages of the report, not a word can be found on open-market policy. The Bank of Italy did indeed, possess 1,080.3 million lire of public securities and a further 186.8 millions were allocated to miscellaneous funds. But the securities are held as investments of reserves or of pensions funds; not, as is the current policy in England and America, as a means of intervening in the money market, depleting it of funds by sales, or refurnishing it by purchase of securities. Perhaps the only Italian approximation to open-market policy is the variation of the rate of interest granted on the deposits of the ordinary banks. In autumn, 1926, the Bank of Italy, being desirous of restricting credit in the open market, granted 5 per cent. interest on the ordinary bank deposits, thus absorbing money which could have been utilised in Stock Exchange and other operations. Deposits which in 1927 averaged 2,147.9 million lire went thus to a maximum of 3,688.2 at February 20, 1928. Such absorption of money from the market being no more necessary, the rate of interest was then reduced to 4.50 per cent. at March 6, 1928, to 4 per cent. at March 26th, to 3.5 per cent. at June 25th, to 3 per cent. at August 6th, to 2.75 per cent. at September 1st, and to 2.50 per cent. at March 11, 1929. Deposits decreased gradually to 1,525.2 million lire at December 31, 1928, and at March 10, 1929, were 1,703.9 million lire. Creating a safe remunerative harbour for superabundant money, and inversely expelling it in times of scarcity, seems to be the new policy evolved recently in Italy; a policy which may well deserve a close study.

173.

ITALY

STABILISATION – STOCK EXCHANGE

COMPANY PROFITS – UNEMPLOYMENT – FOREIGN TRADE

From our Correspondent

Turin, May 6

A newspaper statement that the restriction policy shall be unflinchingly pursued at any cost, and the subsequent more authoritative assurance given by the King in his speech, at the opening of the new Parliament, that the “rate of stabilisation of the lira will be strictly maintained, and that the paper issues will be subject to a drastic and systematic restriction”, eliminated rumours which had been current in some industrial and financial circles that the rate of stabilisation would be raised above 92.70. The rumour was absurd; as nothing would be more dangerous to industry and to saving than the fear that the monetary basis of all contracts is not stable. I explained in my last letter that the reduction of issues and of reserves going on in Italy at present is natural and perfectly in accordance with orthodox rules. But some people imagined that the reduction of gold bills reserves meant a net loss for the Bank of Italy and made her task of maintaining the rate of stabilisation more and more difficult. The task would be difficult only if the note issues did not decrease at about the same rate as the reserves; whereas, if both decrease, the process is bound to restore the balance of international payments and put an end to the export of gold bills.

The Stock Exchange, however, took the short view of the matter, and, forgetting the distant and beneficial effects of the policy of joint issues and reserves restriction, looked exclusively at the immediate one, *i.e.*, shortness of money in the Bourses, and sold heavily. The general index number of shares which was, according to the Milan Economy Council, 90.21 at February 23rd, weakened to 87.10 at March 29th, and went down to 82.52 at April 20th.

Bank of Italy shares, which were quoted 2,215 at February 23rd, are

173. May 11, 1929, p. 1049. The article, unsigned, was published in the section: “Overseas Correspondence”. Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

down to 1,885 at May 3rd, Banca Commerciale Italiana went down between the same date from 1,462 to 1,371, Snia Viscosa from 111 to 100, Soie de Châtillon from 232 to 213, Montecatini (fertilisers) from 282 to 251, Edison Electric Co. from 950 to 780, Real Estate of Rome (Beni Stabili) from 757 to 638, and Fiat from 619 to 533, after having fallen below the 500 level. The end of April settlement proved somewhat difficult, owing to high differences to be paid by bulls; but no trouble ensued. Markets are now better, because people are beginning to think that stabilisation may be costly at first, but must end in assuring a more stable life to agriculture and industry and more lasting profits even to Stock Exchange operators.

The Joint Stock Companies' Association has compiled, and the Bulletin of the Central Statistical Institute, publishes for the first time a collection of very interesting statistics on the profits of the joint-stock companies in Italy. The number of companies accounted for is 237, and the years from 1925 to 1928 (figures in millions of lire).

	1925	1926	1927	1928
Capital	6,779.7	7,500.9	7,995.9	8,510.9
Reserves	1,588.2	2,061.1	2,375.1	2,175.2
Total	8,367.9	9,562.0	10,371.0	10,686.1
Profits	1,019.2	966.8	931.7	1,005.1
Losses	- 2.5	- 7.6	- 58.4	- 12.5
Net profits	1,016.7	989.2	873.3	992.6
Percentage of capital	14.99	13.18	10.92	11.66
Percentage of capital and reserves ..	12.15	10.34	8.42	9.28
Dividends distributed	667.0	784.4	692.9	750.0
Percentage of capital	9.88	10.45	8.66	8.81
Percentage of capital and reserves	7.97	8.20	6.68	7.01

The worst year was 1927, owing to the stabilisation crisis; but, even then, the total losses were only 6.27 per cent. of the profits. The biggest losses in that year fell on the engineering group, with 40.3 million lire out of the total 58.4, and with only 26.4 millions profit for the companies which closed the accounts with a balance on the right side. The next in point of losses was the iron and steel industry, with 8.5 million lire losses, against 11.0 profits; the third was the export and trading companies, with 3.3 millions losses and 3.8 profits. In 1928 the tide was apparently already subsiding. At the top of the list of absolute losses are the iron and steel companies, with 6.5 million lire out of a total loss of 12.5; engineering companies lost only 0.6; export and trading companies 2.7, against 2.6 profits. Agricultural and food companies fared somewhat worse, with 1.7 losses against 1.2 in 1927. Not all the difference between net profits and divi-

dends distributed went to reserves; as various allocations to directors' fees, pension funds for employees, &c., are to be deducted. It would be useful to have the figure of reserves distinguished, but perhaps it would not be as illuminating as in the *Economist's* statistics for Great Britain, because the general rule is to allocate to reserve only the legal proportion fixed in the articles of association. Hidden reserves are usually bigger than the legal one; and they are drawn upon in lean years to maintain dividends. It is possible, and from many points of view it would have been useful, that in 1927 and 1928 hidden reserves had been utilised to some, perhaps not important, degree, in equalising dividends.

The number of unemployed was 461,900 at the end of January, 1929, 489,300 at the end of February, 293,300 at the end of March, against 439,200, 413,400 and 411,800 respectively at the end of the corresponding months of past year. Imports in the first quarter of 1929 were 5,619.3 million lire, against 5,081.1 in the corresponding period of 1928; while exports totalled 3,282.2 against 3,418.5 millions. The adverse balance increased thus from 1,662.6 to 2,337.1 million lire. The increase in the deficit is due not so much to decrease of exports as to increase of imports; and it may be remarked that in the month of March exports, too, increased a little from 1,169 to 1,184.5 million lire. Big increases of imports are signalled in raw textiles, minerals, metals, coal, rubber; so that it can be hoped that exports will also increase in due time.

174.

ITALY

FOREIGN TRADE – EMIGRATION – UNEMPLOYMENT –
SAVINGS – JOINT STOCK COMPANIES – WHEAT DUTY

From our Correspondent

Turin, June 4

A turn for the better seems to have begun in foreign trade as the April figures indicate a decreased excess of imports over exports of 749.7 million

174. June 15, 1929, pp. 1345-1346. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

lire, against 849.5 million in the corresponding months of 1928, while in the first quarter the excess rose from 1,673.7 millions in 1928 to 2,349.5 in 1929. In the first quarter the most noteworthy increases in imports were: Corn, from 124,815 to 261,431 tons; oil seeds, from 81,097 to 112,703 tons; raw jute, from 16,539 to 18,029 tons; raw cotton, from 64,127 to 71,875 tons; broken iron and steel, from 114,460 to 227,216 tons; pig iron, from 27,025 to 43,426 tons; copper, from 16,997 to 19,637 tons; lead, from 5,104 to 8,277 tons; tin, from 1,075 to 1,475 tons; spelter, from 1,977 to 3,131 tons; machinery and parts, from 16,411 to 20,778 tons; coal, from 2,070,157 to 2,577,961 tons; mineral phosphates, from 140,138 to 181,830 tons; mineral oils, raw and lubricating, from 27,736 to 31,910 tons; mineral oil residues, from 101,281 to 130,319 tons; crude hides, from 8,267 to 11,521 tons; rubber, from 1,986 to 4,322 tons. Generally these increases can be interpreted as forerunners of future increases in exports, – but some people believe that there has been a permanent change in the demand for raw materials, as home industry must provide for an increasing population, no longer reduced by emigration. The net number of emigrants, less those returned home, was 240,000 in 1923, and decreased progressively to 177,000 in 1924, 81,000 in 1925, 72,000 in 1926, 67,000 in 1927. In 1928 the number is probably lower, and certainly no higher than 51,600. The effect of the increasing pressure of population seems, until to-day, to have verified Adam Smith's rather than Malthus' theories; each new worker coming of age creates a new demand for goods, but also an increasing supply of them. The number of unemployed has been as follows: January, 438,211 (1928) and 461,889 (1929); February, 413,383 (1928) and 489,347 (1929); March, 411,785 (1928) and 293,277 (1929); April, 356,795 (1928) and 257,603 (1929).

Warnings have been reiterated in the daily Press as to the slowness of savings, the progress of which is shown below:

	Postal Savings Banks	Ordinary Saving Banks	Ordinary Banks	People's Banks	Regional Banks
Dec., 1913	100	100	100	100	100
Dec., 1925	503.7	468.1	552.2	645.6	745.6
Dec., 1926	504.4	476.7	543.0	655.8	755.9
Dec., 1927	480.9	509.9	579.8	669.3	785.6
Dec., 1928	512.8	572.9	650.8	696.4	823.4
Feb., 1929	522.7	586.7	654.1	703.2	—
Mar., 1929	523.5	588.0	—	—	—

As by far the greatest proportion of sums technically known as savings are deposited in the postal and ordinary savings banks (26,435 million lire

out of a total of 35,313 at the end of 1928), it will appear that the increase has not been very great since 1925. If we take into account, however, the increased value of the money, the increase in the purchasing power of these sums will loom much larger. Probably it is this same increase in the purchasing power of the saving, which is responsible for the slowing down of the pace of the nominal increases, since margins for savings during a period of reduced monetary incomes are smaller. Another reason for the slackened rate of increment of saving is probably the increasing amount of direct investment by agriculturists, of which no trace appears in statistics, as savings are invested in buldings or cultural betterments by millions of small or medium-sized agricultural proprietors, none of them having recourse to agricultural loans or mortgages. Statistics of investments are published only in the shape of figures of capital subscribed to joint-stock companies new and old. Taking into account winding up and reductions of capital of existing companies, the number of companies increased in the first four months of the year from 14,609 to 15,213, and their capital from 44,961.2 to 46,483.7 million lire.

Following reports of the slump in the prices of wheat in the United States and Canada, a Royal decree increased the duty on foreign wheat from 11 to 14 gold lire. On the present internal price of 125 paper lire, the duty works out at about 40 per cent., or 66 per cent. on the price of foreign wheat duty bound.

175.

ITALY

BUDGET – CRITICISM BY PARLIAMENTARY
COMMITTEES – THE BALANCE OF TRADE

From our Correspondent

Turin, June 30

Budgets for the financial year from July 1, 1929, to June 30, 1930, have been unanimously approved by the Corporative Chamber of Deputies and

175. July 13, 1929, p. 70. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

by an overwhelming majority of the Senate. Notwithstanding, Parliament has not spared criticism of increases of expenditure and methods of accounting. The reports by deputy Mazzini to the Chamber and by senator Mayer to the Senate, on behalf of their respective Budget committees, are very interesting and it cannot be said that the two committees are less outspoken in their criticism than in pre-war years. Estimates of expenditure have risen from a total of 17,371,791,144 lire in 1928-29 to 18,312,697,928 lire in 1929-30. Revenue estimates have risen too from 17,642,956,004 to 18,570,923,309 lire; so that an excess of revenue over expenditure of 271 million lire in 1928-29 and of 258 million in 1929-30 is estimated. Probably the surplus will be higher than the estimate in 1929-30, as it already can be said to be higher in the current financial year. Signor Mosconi, Minister of Finance, was indeed able to tell the Chamber that for the eleven months ending May 31 the surplus was 492 million lire. Budget Committees are glad to consider estimated and realised surpluses; but they wish that estimates were more fully supported by actual results. Frequently, they say, there is too wide a difference between estimated and realised expenditure. For instance, in the past three years the comparison of estimated and actual expenditure works out as follows (in millions of lire):

	1925-26		1926-27		1927-28	
	Estimated	Actual	Estimated	Actual	Estimated	Actual
Interest on public debts	3,870.4	4,074.9	4,345.1	4,746.1	4,652.6	4,674.3
War pensions	1,102.5	1,278.6	1,116.0	1,340.2	1,145.0	1,227.5
Public servants' salaries & wages	4,056.2	4,449.5	4,175.7	4,580.2	4,662.9	4,376.7
Public servants' pensions	506.8	669.3	590.1	750.1	650.8	753.8
Public ordinary civil services (exclusive of salaries)	2,055.9	2,263.5	3,253.8	3,403.7	2,952.3	2,933.6
Total excess of actual over estimated expenditure	4,413		2,092		808	

The Budget Committees express satisfaction that the difference is rapidly diminishing and ascribe the good result to past insistent remonstrances. But they demand the total disappearance of any excess, as they object to it on several grounds. First, because departments, by minimising estimates of a given expenditure, get the consent of the Cabinet as a whole and of Parliament to the principle of it; trusting that in the course of the year leave to exceed the estimates will be easily granted. Second, because separate supplementary grants prevent public expenditure from being

viewed as a whole, with a just balance between more and less urgent items; attention is forced on single demands, all of which are made to appear necessary and useful. Third, it is not true that no harm results from systematic underestimates of expenditure, as the revenue is underestimated too. If the Budget were to be laid on the table of Parliament with full estimates, the burden on taxpayers would appear, as it is, crushing, and Parliament could put a stop to the increase of expenditure.

The stand taken by both Budget Committees on these sound principles has already born good fruits; as can be seen from the progressive decrease of excesses and from the fact that estimates for 1929-30 were increased by almost a milliard lire over those of 1928-29; the increase being justified by the Minister of Finance as an earnest effort to make estimates as fully representative of probable issues as possible.

Government, Parliament and public opinion being satisfied that the public budget balances, their major concern is to-day with what may be called the "national" budget, viz., the balance of credit and debts between Italy and foreign countries. Both rapporteurs to the Budget Committee devote thoughtful pages to the discussion of this problem. Newspapers are publishing articles on the increase of imports. It is true that during April, as I noted in a past letter, the excess of imports over exports decreased from 808 million lire in 1928 to 750 million lire in 1929; but in the first four months the excess was 3,100 million lire in 1929 against 2,482 in 1928. Nor is the excess due to increasing imports of raw materials. Signor Olivetti notes, for instance, in the *Stampa* that exports of cotton goods increased by 8,800 tons in 1928 against 1927; but raw cotton imports increased much more, by 23,600 tons. The Automobile Club is complaining that the number of motor cars imported increased from 1,539 in the first four months of 1928 to 2,425 in the same period of 1929, and has asked for the publication of the names of all buyers of foreign motor cars. The Government, apparently, took no notice. In the case of motor cars exports are increasing more than imports: from 7,463 to 9,047 in the first four months of 1928 and 1929. Increasing population has a good deal to do with the increase of imports. Owing to the excess of births over deaths and to the decrease, almost to the vanishing point, of net emigration (from 240,000 in 1923 to 24,000 in 1928) the population of Italy increased from 38.7 millions at December 31, 1921, to 40.8 millions at the end of 1927 and to 41.2 at the end of 1928. Demand for foreign food is therefore increasing and also demand for foreign raw materials and machinery. Exports are slower to follow suit. The balance between debts and credits was, however, very well secured, thanks to invisible exports, until the end of 1927. From

January 1, 1928, to the end of April, 1929, senator Mayer calculates the deficit at about 3,000 million lire, covered by the decrease of Bank of Italy gold bills reserves and other short foreign credits. Mazzini's and Mayer's utterances and the daily press articles seem, however, to be unduly pessimistic. They do not take enough account of the regenerative force of the decreasing circulation of the Bank of Italy, which oscillates at present about 16.1 milliard lire as against 17.8 at the beginning of 1928. In the long run this force will assert its supremacy. Internal prices will be forced down by it until the export point for a greater mass of goods is again reached and equilibrium will be re-established.

176.

ITALY

HAGUE CONFERENCE – POPULATION AND AGRICULTURAL PRODUCTION

From our Correspondent

Turin, August 23

Italian public opinion, as expressed in the Press, is unanimous in thinking that the Young Plan ought to be accepted or rejected as a whole. The raising of the Italian quota in the Young figures as against the Spa quota is here considered not only a partial compensation of the utter vanishing of all hopes of obtaining any indemnity from Austro-Hungarian ex-enemies, but also as a moral recognition that the 10 per cent. Spa quota did not correspond to Italy's real share in the losses. The Press quoted the conclusions arrived at by Professor Benini, of the University of Rome, in a report not yet made public, according to which the Italian losses were, owing to the lack of trustworthy estimates, greatly underestimated at the time of the Spa Conference. As Professor Benini is a scholar of the first rank and holds in Italy a situation comparable, from the scientific point of view, to that of Professor Bowley in England, very great importance would be attached to the publication of this report.

Business circles are less concerned about deliveries in kind. Italian con-

176. September 7, 1929, p. 436. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

sumers, *i.e.*, industrialists, have no preference either for British or German coal. All they require is the best buying price for the same or equivalent commodity. If it could be proved that German Reparations coal is not worth having, they would renounce it at once.

Another point stressed in recent discussions is the relative progress of population and agricultural production. The debate was opened by ex-Finance Minister Signor De Stefani, who, in the *Corriere della Sera* of August 5th, remarked that population increased by 2,016,000 from January 1, 1923, to December 31, 1928, a total increment in six years of 5 per cent. Comparing the triennial average productions of 1923-25 and 1926-28 Signor De Stefani concludes that no appreciable increment can be shown, wheat changing from 5,851 thousand tons to 5,768, rye from 163 to 160, barley from 232 to 228, oats from 583 to 579, rice from 584 to 669, maize from 2,581 to 2,290, potatoes from 1,915 to 1,970, sugar beet from 2,391 to 2,664, hemp (fibre) from 86 to 96, linseed from 11 to 9, tobacco from 40 to 37, horticultural products from 1,412 to 1,571, grasses and other forage crops from 22,438 to 23,340, cocoons from 53 to 48, oranges and lemons from 627 to 714, miscellaneous fruits from 756 to 839, chestnuts from 513 to 471, wine from 48 to 39.8 million hectolitres, olive oil from 1,929 to 1,961 thousand hectolitres. Signor De Stefani's article was not a disparagement of the gallant effort made toward raising agricultural production in Italy, but only pointed out the urgency of further efforts in the same direction if the natural increase of population is to be fed and employed. Senator Marozzi, President of the Economic Committee of the Fascist Agricultural Federation, objected to De Stefani's inferences, observing that, in the first period taken for comparison, the year 1923 was exceptionally favourable, while in the second period the years 1927 and 1928 were exceptionally unfavourable. According to Senator Marozzi, the production of wheat per hectare increased during the 1919-1928 decade yearly by 1.29 per cent., of maize by 1.35 per cent., of forage crops by 1.13 per cent., of hemp by 0.60 per cent., of wine by 0.72 per cent., of rice by 1.53 per cent., of potatoes by 1.84 per cent., of beans and other leguminous crops by 4.95 per cent., of cocoons by 4.17 per cent., of olive oil by 0.24 per cent. Professor De Maria has calculated, in his turn, variations of production in 1928 as against the average of 1923-27, which comparison he claims to be more trustworthy than others, and he concludes that cereals increased by 2.9 per cent., potatoes by 27.1 per cent., horticultural crops by 21.8 per cent., grass and forage crops by 11.6 per cent., and, on the other hand, industrial crops decreased by 14.6 per cent., leguminous crops by 11.9 per cent., wine by 12.7 per cent., olive oil by 29.3 per cent., fruits, oranges,

lemons, &c., by 1.9 per cent., chestnuts by 16.4 per cent. In total he concludes that 1928 was a stationary year as far as production is concerned, and that production was obtained at an increasing cost. The truth may be that an increase in agricultural production is a long-time affair, and that present efforts at reclaiming and bettering land will give good results only after 20 or more years. In the meantime, some progressive and energetic agriculturists are already obtaining remarkable results. A strenuous competition formally engaged between agriculturists of Brescia and Cremona concluded in an average production of 4.3 tons of wheat per hectare for both (about 1.7 tons per acre), which is truly a very good result. And Signor Marescalchi points to the increasing extension of the double-crop system, wheat and rice in the same field and year. The practice in the Milan province was extended from 600 hectares in 1926 to 1,500 in 1928, and the average production can be estimated at 6.7 tons rice and 3.3.5 tons wheat. In all 10 tons per hectare, or four tons per acre. The problem is: What time will be required for extending these splendid, but as yet limited, results into backward regions, and what will be the cost to the present generation of the change?

177.

ITALY

WHEAT YIELD – TRADE BALANCE – IMPORT SYNDICALISATION
PROPOSAL – IMPROVED BANK RESERVES

From our Correspondent

Turin, September 8

The announcement of Signor Martelli, at the meeting of the permanent wheat committee, that the production of wheat will exceed in 1929 the record figure of 7 million tons, against 6.2 in 1928, 6.1 for the average of the period 1926-1929, and 5.05 for the average of the period 1911-1914 is heralded by the Press as a near approach to victory in the so-called wheat battle. More significant is the rise of the average yield from 1.06 tons per hec-

177. September 14, 1929, p. 477. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

tare (0.424 per acre) in 1911-1914 to 1.25 (0.50) in 1926-29, and to 1.44 (0.576) in 1929. Hopes are raised for a decrease in the deficit of the international trade balance, owing to reduced imports of wheat and other cereals. Wheat has already figured by lesser amounts in the current year, as in the first part of 1929 imports were 1,343,466 tons, of the value of 1,321 million lire, against 1,542,307 tons of the value of 1,750 million lire in the corresponding period of 1928. Owing, however, to shortage of maize and other food products the general balance was not improved to the same extent. Average monthly imports of food products decreased only from 505 million lire in 1928 to 464 million lire in the first five months of 1929, while exports of the same food products decreased also from 275 to 245 million lire. The most significant change is in imports of raw materials, which, after reaching the high figure of 842 million lire monthly in 1926, decreased to 630 in 1927 and 640 in 1928, presumably owing to the revaluation and stabilisation of the lira, which made industrialists shy of buying raw materials in face of export difficulties. In the first five months of 1929, however, industry again took courage, and its purchases rose to 739 million lire monthly. As yet exports of finished products do not reflect these increases in the imports of raw materials, but as the internal market cannot absorb all the output, when stocks are replenished to their former level, exports are bound to increase. Among increases in imports of raw materials in the first half-year the most interesting items are: — Jute, from 30,750 to 35,488 tons; raw cotton, from 122,956 to 133,540 tons; wool, from 32,685 to 36,334 tons; broken iron, steel and pig iron, from 317,739 to 497,496 tons; pig iron, from 56,097 to 98,548 tons; lead, from 13,299 to 15,578 tons; tin, from 2,211 to 2,605 tons; spelter, from 4,514 to 5,486 tons; cellulose, from 85,268 to 93,452 tons. Coal, exclusive of Reparations coal, was up from 4,198,390 to 5,396,394 tons.

The insistence of Mr Snowden at the Hague that Italy should increase the purchase of British coal by her State railways by one million tons yearly has induced the former Finance Minister, signor De Stefani, to suggest that Italian imports should be unified under the aegis of industrial syndicates. Italy buys yearly more than 3 billion lire of cereals, potatoes, &c.; 2 billion raw cotton, 1 billion wool, about 1.5 billion coal, 1 billion minerals oils, 1 billion metallic minerals, &c. At present all these purchases are made severally by individual buyers. Why should not syndicates unify the demand and come into the market as the sole buyers on account of Italian trade? Purchases would be shifted, say, from Great Britain to Germany, from Canada to United States, from Argentina to Australia, according to price, and still more according to the best counter offers forthcoming as to purchases

of Italian goods. Italian exports suffer from not consisting of monopolised or privileged goods; and this appears to be one cause of the adverse trade balance; but if we could monopolise imports, we could force other countries to purchase a sufficient mass of our exports. This is a gigantic plan indeed. The author does not ask for a State monopoly of imports, but for a voluntary organised syndicalisation of the principal branches of industry and trade so that purchases in the foreign markets should go through a sort of central import board. Something of this kind worked during the war, and goes on now in the Russian collectivist system. How it would work voluntarily in Italy it is very difficult to foretell. With whom would the Italian syndicates negotiate? How can foreign sellers of coal, wool or cotton bind other interests to buy given quantities of Italian silk, oranges, cheese, rice, hemp, cotton textiles or motor cars? The system necessarily presupposes a world syndicalisation of industry and trade carried to such an extent that at present it cannot be considered practical politics.

There are, moreover, indications that the international balance of payment is being redressed without recurring to new trading systems. Perhaps the surest index is the figure of the Bank of Italy total reserve. When the general balance was passive, reserves diminished from 12,516.1 million lire at the end of March, 1928, to 10,004.9 at the end of April, 1929. The Bank of Italy was obliged to sell gold bills against paper notes to importers who did not find enough bills in the free market. From April on this tendency was reversed. At the end of July, 1929, the total reserve is up to 10,094.4 million lire; a small increase, but indicative perhaps of the turning of the tide.

178.

ITALY

RISE IN LONDON BANK RATE – BANK OF ITALY – STOCK EXCHANGES

From our Correspondent

Turin, October 1

So far no rise in Bank rate seems to be contemplated as a result of the raising of the British rate. Gold is not leaving Italy. The relevant figures from the Bank of Italy's returns (in million lire) are as follows:

178. October 12, 1929, p. 667. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

Assets	Gold	Gold bills and credits	Total reserves	Discount, advances, and day-to-day loans
September 30, 1928	5,051.7	6,593.7	11,645.4	4,509.4
August 20, 1929	5,159.0	4,913.5	10,072.6	5,427.2
September 10, 1929	5,159.5	—	—	5,330.0*

Liabilities	Notes issued	Sight debts	Current accounts			Total
			Private	Treasury	Treasury (special)	
September 30, 1928	17,476.2	550.6	2,010.8	300	204.2	20,541.8
August 20, 1929	16,520.0	481.8	1,441.8	300	611.1	19,354.8
September 10, 1929	16,632.3	417.4	1,125.8	300	—	19,200.0*

* Estimated.

There is a decline in the note issue and in those items on which the Bank could draw for purposes of making payments. To this there corresponds, on the assets side, a decrease only in the gold bills and credits figure. Gold itself is increasing. On a scale far less noteworthy, the Bank of Italy, like the Bank of France, is pursuing a policy of gold purchases at the expense of gold bills and credits. And, as the Bank is not obliged to give gold in exchange for notes, but has the alternative of gold bills, and as notes can be exchanged for gold bills only in case of *bona fide* commercial transactions, exclusive of export of capital, there is no likelihood at present of gold leaving Italy. Financial writers, while concluding that a rise in the rate of interest is not in sight, add, however, that some caution must be exercised on account of the persistent habit of exporters of depositing in foreign banks credits for goods sold. This habit puts the Bank of Italy under useless pressure, as it causes importers to have recourse to the bank, in the absence of a sufficient supply of bills on the market.

The Stock Exchanges, which were already stagnant, were unfavourably affected by the rise of the London interest rate. The Italian market is much more sensitive than it used to be to the vagaries of foreign Bourses, as is evidenced by the copious publicity given by the daily Press to quotations of Italian and foreign securities in the New York, London, Paris, Amsterdam and Berlin Bourses. The general Bachi index number of 173 variable dividend representative securities (100=December, 1913, 163.4 December, 1924; 101.1 July, 1927) opened the year at 141.3. After a brief spurt to 143.5 at the end of February, it fell until, at the end of August, it was at

132.8. Thereafter quotations sagged badly: Bank of Italy shares, which closed August at 1908, on September 28th were quoted at only 1800; and between the same dates the Banca Commerciale Italiana decreased from 1380 to 1330, Credito Italiano from 837 to 786, Meridional Railways (now a sort of investment trust) from 1198 to 1140, General Navigation Co. from 510 to 507, Snia Viscosa from 87 to 78, Fiat (motor cars, etc.) from 518 to 440, Edison (electricity) from 874 to 851, Romani Beni Stabili (real estate) from 659 to 617. A few securities, such as Montecatini (chemical manures) are firm at 258, Ligurian-Lombard Sugars up from 786 to 852. Cotton securities, also, are firmer, such as Turati from 760 to 775, Val d'Olonia from 440 to 480, etc. Dear money prospects are particularly discouraging to would-be bulls on the Bourses, since from Easter, 1925, onwards, the general public has deserted the Stock Exchanges, leaving them to professionals, who vainly try to create business between themselves and the bank.

179.

ITALY

STOCK EXCHANGES – BANK OF ITALY – FOREIGN TRADE – TREASURY BONDS
AND AMORTISATION FUND – WHEAT PRICES

From our Correspondent

Turin, November 26

The New York slump had no appreciable influence on Italian stock exchanges. Since the middle of 1925 our bourses have been in a sleepy mood, transactions being limited to the professional operators, with no participation at all by the public. The index number of 35 representative securities calculated by the Milan Economic Council on a basis of 100 for December 31, 1925, had gone down to 62.61 on December 31, 1926, recovering to 80.25 on December 31, 1927, and to 88.29 on December 29, 1928. The present year opened hopefully with a spurt of 90.21 at the end of February; but soon after lethargy was resumed, with a fall to 81.68 at the end of

179. November 30, 1929, p. 1022. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

April, a short recovery to 86.87 at the end of August, followed by a new decrease to 84.68 at the end of September. At October 31st, notwithstanding the American crisis, the index was 85.72, with a recession to 84.62 at November 16th. Transactions have lately been limited to a proportion in the neighbourhood of 3.46 per cent. of the total number of shares issued.

The Bank of Italy has not changed the official rate of discount, which was raised from 6 to 7 per cent. on March 14, 1929. The policy must be considered in connection with the movement of the most important items in the balance sheet (in million lire):

	March 31, 1928	December 31, 1928	June 30, 1929	October 31, 1929
Assets				
Gold	4,660.5	5,051.7	5,158.6	5,180.1
Gold securities	7,855.6	6,018.9	4,919.6	5,196.5
Total gold reserve	12,516.1	11,070.6	10,078.2	10,376.6
Discounts and advances	3,911.7	5,655.9	6,132.5	5,554.9
Liabilities				
Notes issued	17,264.8	17,295.4	16,753.2	16,977.5
Public and private deposits	3,808.7	3,366.1	3,475.7	3,259.1

The rise in the official rate of discount last March was clearly a move against the constant efflux of gold which had continued since March 31, 1928. The aim was not achieved at once; but after the end of June a reversal of the current set in; so that at the end of October the reserve had risen by almost 300 million lire. This favourable movement is related to a similar reversal of the foreign trade situation (in million lire):

	Imports			Exports			Excess of Imports over Exports	
	1928	1929		1928	1929		1928	1929
Jan.-June	11,063.4	11,698.6	+ 635.2	6,997.6	7,376.8	+ 329.2	4,065.8	4,371.8
July	1,746.8	1,567.4	- 179.3	1,043.4	1,054.2	+ 10.7	703.4	513.3
August	1,552.1	1,404.5	- 147.6	1,117.9	1,208.7	+ 90.8	434.1	195.7
September	1,603.4	1,438.6	- 164.8	1,157.2	1,231.4	+ 74.2	446.3	207.2

The good wheat yield of the 1929 harvest is mainly responsible for the falling off in total imports. On the other side exports would have been better if the motorcar industry were better able to meet competition in foreign markets, only 17,719 cars being sold in the first eight months of the year against 19,120 in the same period of last year. On the whole, however, the general industrial situation seems to be improving, exports realising

the hopes entertained during the months when imports of raw materials were rising and made inroads on the gold reserve of the Bank of Italy.

A very important statement was made by the Finance Minister, signor Mosconi, at the Cabinet of November 14th. There are extant at present 7,640 million lire of Treasury nine-year bonds, which fall due between November 15, 1931, and November 15, 1934. The Minister most solemnly declared that the bonds will not be forcibly converted into perpetual rentes, as was done in November, 1926, in the case of short Treasury Bills and three to seven-year bonds. They will be duly reimbursed at the fixed date. This declaration was in some circles interpreted as tantamount not only, as the Minister hinted, to the future offer of a new redeemable security against bonds falling due, but also to the issue of ordinary Treasury Bills, which, after the compulsory 1926 conversion, were no more heard of in Italy. It is always good for the Treasury to be able to issue Treasury Bills. In the past year the Treasury has relied mainly on the deposits of public administrations, especially of the great Deposit and Loan State Bank, and of the Bank of Naples, which deposited on September 30, 1929, 2,925 million lire in the public treasury. But these banks will have to use their deposits, as big plans concerning land reclamation, afforestation, etc., are eagerly awaiting additional capital.

Another interesting statement by Signor Mosconi is that the Public Internal Debt Amortisation Fund is to be reformed. It seems that the system of crediting the budget surpluses to the fund will be discontinued. Budget surpluses, under our system of accounting, are not always cash surpluses, and become available only after the winding up of all accounts relating to the year, often a long process. Probably a fixed sum will be put down in the budget as a contribution to the Amortisation Fund.

At the last meeting of the Wheat Committee Signor Acerbo, Minister of Agriculture, moved that the present wheat duty of 140 gold lire, viz., 520 paper lire, be maintained and possibly changed if necessary to meet excessive depreciation of wheat prices in the world markets; that facilities should be granted for the temporary export of national wheat, when prices are too low in the Italian markets in comparison with foreign markets, and that means be sought for the building of elevators and for relieving the farmers from the dire necessity of selling crops immediately after harvest. Present wheat price are somewhat better than 1,300 lire per ton, but farmers complain that, notwithstanding the 140 gold lire duty, which is almost double the duty of 75 lire prevailing in 1914, prices are lower, if account is taken of the changed purchasing power of money,

than those current in prewar years, a situation unfavourable to the wheat campaign.

180.

ITALY

BUDGET COMMITTEE REPORT – TAX BURDENS – PROBLEM OF ARREARS

From our Correspondent

Turin, December 26

Recent reports on the Budget by Signori Olivetti and Magrini, on behalf of the General Committee of the Chamber of Deputies, and by Signor Mayer for the Senate Finance Committee make interesting reading. They are more interesting because more critical than most analogous reports before the Fascist regime. Criticism is levelled, in the first place, against the increasing taxation burden. Here are reproduced the final figures of an interesting table by Olivetti and Magrini. The figures summarise the total revenue and expenditure of the State for the years from 1922-23 to 1927-28, for which accounts are closed. According to our budgeting system, the figures include all revenues and expenditures pertaining to the respective fiscal years (July 1st to June 30th), taking also into account revenue due but not received and expenditure due but not yet actually effected. The revenue figures which follow are net, and, owing to various other arrangements to make them comparable from year to year, they are not exactly the same as those published in the gross revenue accounts (in milliards lire):

	Revenue		Expenditure		Deficit or Surplus	
	Paper Lire	Present Lire	Paper Lire	Present Lire	Paper Lire	Present Lire
1922-23	16.7	14.8	19.6	17.3	- 2.9	- 2.5
1923-24	18.0	14.9	18.0	15.0	-	- 0.1
1924-25	19.1	15.2	18.2	14.5	+ 0.9	+ 0.7
1925-26	21.0	15.6	20.8	15.5	+ 0.2	+ 0.1
1926-27	21.4	17.2	21.0	16.9	+ 0.4	+ 0.3
1927-28	20.1	20.4	19.6	19.9	+ 0.5	+ 0.5

180, January 11, 1930, pp. 69-70 The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

Revenues were received and expenditure made in paper lire at the value current from time to time. "Present lire" figures are added, however, in order to show what would have been the burden of taxation and the amount of expenditure if the same monetary unit, the present lira at the legal rate of stabilisation, had been current throughout the period. Viewed in this way, revenue was but slightly increased from 1922-23 to 1925-26, and expenditure was diminished in no small proportion, so that the great feat of changing a deficit of 2,500 million lire (in present lire) into a small but highly significant surplus was achieved. Revaluation in 1926-27 and stabilisation in 1927-28 gave a rude shock to this process. Revenue and expenditure remained about the same, and even slightly decreased in actual paper lire; but in terms of "present lire" the burden greatly increased, expenditure going up about 30 per cent. and taxation becoming more and more burdensome. Signori Magrini and Olivetti conclude that State expenditure was not appropriate to the changed value of the lira. This is indeed the crucial point of every revaluation process. Revaluation means contraction of prices and of private incomes; but State expenditure is mostly fixed and cannot be contracted, so that the burden on taxpayers increases. Years must pass before the old equilibrium between private and public expenditure is restored.

The second criticism of the Budget Committee of both Chambers of Parliament relates to "arrears". This is probably something of a mystery for British readers, who are accustomed to their cash budgeting system. In Italy we budget on the basis of revenues which are actually received plus revenues which are due at the end of the fiscal year, and of expenditure made and remaining to be made. Therefore, side by side with the current yearly budget we carry on a separate budget of arrears to be received and expended. This double budget makes it possible, argue Parliamentary Committees, to charge a given expenditure on the arrears instead of on the current budget, making the latter appear better than it ought to be. It is not easy to estimate the importance of such a criticism; but it is certain that the condition of the exchequer is determined by the sum total of actual receipts and issues, whatever the year to which they refer, without regard to the revenue still to be cashed and expenditure to be made. The Chamber Budget Committee has made some interesting calculations, and we publish their final "adjusted" comparable figures (in milliard lire):

	Exchequer Receipts			Exchequer Payments		
	Current Revenue	Arrears	Total	Current Expenditure	Arrears	Total
1923-24	16.9	2.8	19.8	11.8	5.1	16.9
1924-25	18.0	1.9	19.9	11.6	6.2	17.8
1925-26	19.7	1.4	21.1	13.2	5.9	19.1
1926-27	19.9	1.5	21.4	13.8	6.7	20.5
1927-28	18.8	1.5	20.3	13.5	8.0	21.5
1928-29	—	—	18.8*	—	—	19.4*

* Not adjusted.

In the total receipts arrears play a minor part, while about a third of the total payments are in arrears. Each year the exchequer pays only about two-thirds of the current expenditure, and passes on the remaining third as arrears. To obviate such a situation, section 6 of the statute of December 9, 1928, enacted that the fiscal year, though ended as usual at June 30th, should have a sequel in July, being finally closed at July 31st. During the month of July, 1929, we had thus for the first time a double budget — the old 1928-29 budget ended at June 30, 1929, but not yet closed, and the new 1929-30 budget. It is hoped to get rid in this way of a part of arrears which are received and paid shortly after the end of the fiscal year.

A third source of criticism by the Budget Committees is the growth of the habit of spreading certain expenditure to be made in a given period over a longer series of fiscal years. According to a table published by both Chamber and Senate Committee, the sum total of the expenditure to be thus charged on the budgets from 1929-30 to 1938-39 amounts to 28,858 million lire. This is wholly apart from permanent expenses, such as public debt interest, pensions, salaries, etc., and to that extent the elasticity of future budgets is impaired. These and other minor criticisms seem severe; but the Chamber of Deputies Budget Committee observe that it is the duty of the new Corporative Chamber to restore the financial control of Parliament to its ancient traditions, which were almost forgotten in the last years of the parliamentary regime. The Committee's strictures provoked some reaction in the Assemblies: Signori Zingali in the Chamber and Rava and Raineri in the Senate maintaining that arrears on the expenditure side had already diminished from 43.06 at June 30, 1923 to 18.97 million at June 30, 1928, and were bound to decrease further; and that the taxation burden was not so grievous as it was made to appear in the Committee reports, as the national income had not decreased in proportion to the revaluation of the lira. Statistics are lacking on the respective varia-

tions of public expenditure and national income; but the parliamentary discussion very usefully pointed out the necessity of keeping a keen eye on the tendency of public departments to increase their expenditure. The hero of the debate was a man unknown to the public at large, the Accountant-General of the State, Signor De Bellis, to whom all orators paid homage as the man to whose lot falls the ungrateful task of saying "No" to all claiming a right to dip their hands into the public purse. Truly, in his capacity of watchdog, Signor De Bellis has saved billions to the public exchequer.

181.

ITALY

FOREIGN TRADE. — The corrected figures of the Central Institute of Statistics for 1929 and previous years were as follows (precious metals and reparation deliveries excluded):

(In Millions)

	Imports	Exports	Excess of Imports over Exports	
	Paper Lire	Paper Lire	Paper Lire	Present stabilised Lire *
1910-13	3,496	2,528	968	3,553
1920	18,105	8,742	9,363	11,190
1921	17,227	9,300	7,927	7,384
1922	15,765	10,698	5,067	4,551
1923	17,189	12,757	4,432	3,872
1924	19,381	16,529	2,852	2,360
1925	26,200	21,015	5,185	3,931
1926	25,879	21,175	4,704	3,446
1927	20,375	15,632	7,743	4,602
1928	22,042	14,529	7,513	7,513
1929** ***	21,353	14,886	6,467	6,467

* For the sake of comparison the paper lire are converted into old gold lire at the appropriate rate of exchange, and these are in their turn converted into present stabilised lire at the rate of 1 to 3.67.

** Provisional figures.

*** When expressed in lire of pre-war purchasing power the excess of imports in 1929 amounts to 1,504 millions as compared with the average of 968 millions in 1910-13.

The decrease in the import balance in 1929 is wholly attributable to the second half of the year. In the first half the excess of imports increased

181. February 15, 1930, pp. 15-16. The article, unsigned, was published in the supplement: *The Economist. Commercial History & Review of 1929*. Its attribution to Luigi Einaudi is certain because the original manuscript, without date but entitled "Commercial history. Italy", is kept in the Einaudi archives.

from 4,750 to 4,897 million lire. The heavy imports were due to coal, gasoline, corn and broken iron and steel. In the second half of the year, however, owing to lesser imports of wheat (354,0000, against 946,000 tons), and of corn (244,00, against 466,000 tons), imports were lower at 8,801 million lire, against 9,251 million lire in 1928; and as the exports were unchanged (6,512, against 6,489 million lire), the excess of imports went down from 2,763 to 1,570 million lire. The hoped-for increase of exports has failed to materialise during the past year, as rationalisation and reduction of costs in industry have not yet produced sufficient result, though in agriculture the wheat campaign has met with better success.

The improvement in the balance of trade becomes almost negligible when expressed in terms of lire of pre-war purchasing power. To the deficit we must add the deliveries on reparation accounts, which are true paid imports, as Italy has to pay over to Great Britain and United States practically the whole amount received by Germany. The most important item in this account is coal, of which we imported 1,727,861 tons in 1925, 2,891,381 tons in 1926, 3,088,906 tons in 1927, 3,539,231 tons in 1928 and 1,927,000 tons in the first eight months of 1929.

CROPS. — Agricultural yields generally were better in 1929 than in 1928. Comparative figures for several years are given in the following table.

	(Thousands of Tons)				
	1909-14 (Average)	1921-25 (Average)	1927	1928	1929
Wheat	4,927.3	5,397.1	5,329.1	6,221.5	7,094.4
Maize	2,468.8	2,322.3	2,132.1	1,587.6	2,408.3
Rice	486.7	535.4	696.1	631.5	673.4
Potatoes	1,656.2	1,835.1	1,945.3	1,489.8	2,011.1
Sugar beet	1,723.8	2,400.3	2,015.4	2,861.3	—
Olives	1,076.9	1,181.4	1,007.3	1,413.9	—
Raisins	7,047.2	6,695.1	5,795.8	7,503.1	6,347.4
Cocoons*	40.8	—	50.7	52.5	53.3
Hemp*	83.5	—	83.0	85.7	87.3

* Average, 1909-13.

INDUSTRY. — The production of electric power increased from 6,784.7 million kilowatts in the first ten months of 1928 to 7,317.8 in the corresponding months of 1929. In general, 1929 was not a good year; the effects of the revaluation of the lira were still felt. Goods carried by State railways, which were 63.2 million tons in 1924-25, increased to 65.3 million in 1925-26, but were only 64.5 in 1928-29. The number of passengers carried by State railways fell from 115.7 million passengers in 1927 to 112.2 in

1928, and to 99.2 in the first ten months of 1929, the probable yearly total being but slightly higher than in 1927. The process of liquidation of unsound firms is continuing; failures averaged 944 monthly in the first 11 months of the year, against 933 in 1928, 886 in 1927, 654 in 1926 and 617 in 1913. Transactions passing through the 11 clearing houses fell from 710.1 milliard lire in the first eleven months of 1928 to 678.4 in the corresponding months of 1929, and the decrease was especially felt in end-of-the-month Stock Exchange clearings. The highest level of unemployment was 489,437 in February, as compared with 439,211 in January, 1928; the minimum was 193,325 in June, as compared with 234,210 in July, 1928. In December, 1929, there were 408,748 persons wholly unemployed, as compared with 363,551 in the corresponding month of 1928. From December, 1928, to December, 1929, the greatest relative increases took place in the iron and steel and other metal, textile and chemical industries.

GENERAL ECONOMIC INDEXES. — The following half-year average indices, taken from Mortara's *Prospettive Economiche* for 1930 are useful for an estimate of the present economic trend. (See table at p. 493).

These indices show very clearly that something is still out of joint in the economic mechanism. Gold wholesale prices at 134 and 127 for the two half-years, and 131 for the whole year, seem low in comparison with a 139 level for the United States, 137 for Great Britain, and 140 for France. Cost of living has increased, while wholesale prices decreased; and as money wages were diminishing, real wages have suffered during 1929.

SAVINGS AND NEW ISSUES. — Deposits in postal saving banks, which, after having risen to 504.4 at the end of 1926 (from the 100 basis of 1913) had sunk to 460 in October, 1927, continued in 1929 to recover the lost ground, reaching 535 in October. Deposits in ordinary saving banks similarly advanced from 475 in June, 1927, to 583.8 in December, 1928, and 591.4 in October, 1929. Deposits in the six largest ordinary banks rose from 542.3 in March, 1927, to 650.8 in December, 1928, and 664.1 in October; but those of people's banks, which had risen from 654.8 in March, 1927, to 696.4 in December, 1928, decreased to 678.3 in June, 1929. The total of remittances from Italian emigrants decreased from 3,757.9 million lire at the end of 1926 to 3,241.5 at the end of 1927, to 2,963.7 at the end of 1928 and 2,731.6 at the end of October, 1929. The net increase in the issued capital of joint-stock companies amounted to 4,605.3 million lire in the first eleven months of

	Bank Notes Issued	Paper Price of Gold	Wholesale Prices		Cost of Living	Wages
			In Paper Current Lira	In Gold Lira		
1913	100	100	100	100	100	100
1921						
1 st half-yr.	749	460	551	120	560	589
2 nd half-yr.	737	455	525	115	522	567
1922						
1 st half-yr.	728	389	517	133	503	561
2 nd half-yr.	728	430	542	126	498	550
1923						
1 st half-yr.	694	401	539	134	495	523
2 nd half-yr.	705	442	531	120	493	519
1924						
1 st half-yr.	691	443	545	123	517	517
2 nd half-yr.	725	444	562	127	536	530
1925						
1 st half-yr.	725	476	622	131	594	559
2 nd half-yr.	760	496	671	135	628	594
1926						
1 st half-yr.	728	491	648	132	653	609
2 nd half-yr.	725	510	661	130	653	637
1927						
1 st half-yr.	694	402	568	142	639	—
2 nd half-yr.	681	355	486	137	539	—
1928						
1 st half-yr.	636	366	492	135	530	545
2 nd half-yr.	628	368	491	133	529	539
1929						
1 st half-yr.	594	368	492	134	547	532
2 nd half-yr.	610	368	470	127	543	534

1929, compared with 2,698.1 million in 1928 (whole year) and 1,840.5 in 1927.

MONEY AND STOCKS. — The official rate of discount, which was raised from 5.60 to 6 per cent. at January 7, 1929, was again raised to 7 per cent. on March 14th and remained there during the rest of the year. The market rate of discount for first-rate bills, therefore, increased also from 5.75-6 to 6.75-7 per cent., and prolongation rates from 6.50-6.75 per cent. to 7.25-7.50 per cent. The Bourse was stagnant: the Bachi index number increased at first from 141.3 at the end of 1928 to 143.5 at the end of February, and then fell progressively to 129.2 at the end of November.

PUBLIC FINANCE. — The financial year closed for the fifth time with a surplus. The provisional figure of 382 million lire will probably increase to over 500 million lire in the final accounts. The first six months (July-De-

cember) of the current year 1929-30 show a deficit of 218.3 million lire, owing mainly to a decrease in the yield of the wheat duty, in consequence of the good 1929 crops and the resulting diminution in imports. State internal debt increased further to 87,689 million lire at December 31, 1929.

182.

ITALY

DUCE'S ECONOMY PROPOSALS – TREASURY
ACCOUNTS – STOCK EXCHANGE FAILURES

From our Correspondent

Turin, February 6

A very significant speech was made by Signor Mussolini at a meeting of the 92 mayors (*podestà*) of the municipalities which are the seat of provincial administrations. The speech was focussed on the high tax pressure and the necessity of economies in the State and local finances. At any cost, he said, the tax burden must be diminished. The first tax to go is the octroi, or Customs duty levied on goods entering cities. Italy, said Signor Mussolini, shared with Paris and Greece the unwelcome privilege of these mediaeval relics of the barriers which divided boroughs and counties. To achieve reduction of the tax burden we must reduce expenditure. After the large public capital investments of the years 1922 to 1929 we must begin in 1930 to slow down the pace of progress. All public works not absolutely necessary must be suspended. All expenditure for pure embellishment of cities must cease. That the burden of taxation is high in Italy is only too true. Calculations by Professor Mortara in the new (1930) issue of *Prospettive Economiche* (the best private Italian annual survey of economic conditions) confirm the Prime Minister's utterance. Mortara's estimate of the proportion of public State and local revenue to national income is 25 per cent. for Italy, 23 per cent. for Great Britain, 20 per cent. for Germany, 20 per cent. for France. But his calculations of the national income lead to

182. February 15, 1930, pp. 358-359. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

the conclusion that the average annual income per head amount to about £ 24 for Italy, £ 86 for Great Britain, £ 50 for Germany, and £ 45 for France. Clearly, it is not the same thing for a man with an income of £ 24 to pay a fourth part of it to public bodies as it is for one whose income is £ 86.

That Signor Mussolini's warning in favour of economies is timely is evidenced by the results of the first half of the current fiscal year (July 1st to December 31, 1929), which closes with a deficit of 217.9 million lire, against a surplus of 22 million in the same period of 1928. This figure is not necessarily serious, as the deficit was mainly due to the falling of the wheat duty, owing to the good 1929 harvest. But the most careful scrutiny is required of the Treasury account, which, for the said half-year, can be summarised as follows (in million lire):

	Million Lire
Cash at June 30, 1929	2,352.0
<i>Deduct:</i> Payments since June 30 in respect of the fiscal year ended June 30, 1929, 2,926.9 million lire; <i>less</i> surplus of receipts over payments in respect of the current fiscal year's effective revenue and expenditure, 1,458.2 million lire	1,468.7
	<hr/> 883.3
<i>Add:</i> Excess of new debts over debt payments, 26.3 million lire; excess of Treasury floating debts over credits, 1,331.6 million lire	1,357.9
Cash at December 31, 1929	2,241.2

Thus it appears that the cash was maintained at the old level only by the generous deposits of various public administrations, such as the Postal Savings Banks, Social Insurance Funds, State railways, etc., which happened to have superabundant money lying at their credit in the usual Treasury current account. These temporary deposits are not permanent debts, as they appear to have taken the place of Treasury Bills, of which no more have been issued since the compulsory funding of November, 1926; and it must be noted that the first half of the year is always remarkable for big borrowings on account of the arrears of previous years. But all the same, the Prime Minister's warnings about the necessity of slowing the pace of expenditure were hailed with relief by taxpayers.

If Stock Exchange quotations could be regarded as a true mirror of the economic situation, we should say that we are entering into an era of optimism. A certain number of securities have risen substantially, so that the New York slump of last October seems already forgotten. A good impression was made by the announcement that the Fiat workshops are operating again at capacity as from February 3. In those industrial fields for which we have figures of production the indices show an increase. Production of

rolled iron and steel has increased from a monthly average of 151,859 tons for 1928 to 165,884 tons in the first eleven months of 1929. That of artificial silk rose from 2.9 million tons in the first eleven months of 1928 to 2.9 in the same period of 1929. Failures, however, continue to be numerous; in the second half of 1929 they rose from a minimum of 864 in August to 1,084 in December, exclusive of 146 small failures.

183.

ITALY

EXCHANGE PAYMENTS – BANK OF ITALY – PRICES –

FOREIGN TRADE – BOURSES

From our Correspondent

Turin, March 13

Exchequer payments on account of effective expenditure exceeded receipts by 1,492.6 million lire in January, chiefly owing to the fact that payment of interest on Consols and other State debts was made this year in January, when it fell due, instead of being made in advance in December. As the result, cash in the Treasury, which had diminished from 2,352 million lire at June 30, 1929, to 2,241.2 at December 31, decreased further to 1,208.4 at January 31, 1930, while Treasury floating debts rose by 459.8 million lire. Usually the situation of the Treasury improves in spring, but the closest supervision will be necessary if the growth in expenditure, against which Treasury and parliamentary Budget committees alike are expostulating, is to be checked.

If the Treasury situation is somewhat strained, the position of the Bank of Italy continues to be easy. Comparing the figures at December 31, 1927 (the first balance sheet published after stabilisation), March 31, 1928 (the time of maximum total reserves), December 31, 1929 (when discounts and advances were at their maximum) and February 20, 1930 (last balance sheet published), we obtain the following table (in million lire):

183. March 29, 1930, pp. 706-707. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

	Dec. 31 1927	Mar. 31, 1928	Dec. 31, 1929	Feb. 20, 1930
ASSETS:				
Gold	4,547.1	4,660.5	5,190.1	5,189.8
Other gold exchange reserves	7,558.8	7,855.6	5,151.1	4,790.4
Total reserves	12,105.9	12,516.1	10,341.2	9,980.2
Discounts, advances and day - to - day prolongations	5,520.0	3,911.7	6,233.7	4,384
Other debtors	769.9	1,021.3	722.6	1,336.5
LIABILITIES:				
Notes issued	17,992.2	17,264.8	16,774.3	15,716.8
Circular cheques	657.3	604.6	602.8	409
Private deposits	2,066.7	3,022.6	1,032.1	1,569.2
Treasury deposits	1,105.7	181.5	1,788.6	959.5
Other creditors	1,435.7	968.5	1,058.1	894.9

The outstanding fact is the decrease in the gold exchange reserves from the maximum of 7,855.6 million lire at March 31, 1928, to 4,790.4 million at February 20, 1930, a decrease only partly counterbalanced by the increase in the gold proper from 4,660.5 to 5,189.8 millions, leaving a net decrease in the total reserve of 2,535.9 million lire. Against this, there is, however, as a set-off, the decrease, between the same dates, of 1,548 million lire in the notes issued and of 1,453.4 million lire in the private deposits. Nor are there symptoms of credit inflation, as discounts, advances and day-to-day loans, after going up at the end of December, fell sharply again. Treasury accounts are the most erratic items in the balance sheet; their variations seem to follow those of the discounts, etc., item. Nobody knows anything about "other" debtors and creditors; an hypothesis put forward in Signor Mazzucchelli's monthly reviews in *Rivista Bancaria* (perhaps the most eagerly scanned financial article in Italy) being that "other" debtors includes a secondary or hidden gold exchange reserve.

These figures suggest that the deflationist policy is ruthlessly persisted in. One result at least has been reached: the decrease of wholesale prices. According to Professor Bachi the average price index for 49 imported commodities decreased from 631.8 for 1926 to 492 for 1927, to 454 for 1928, to 454.4 for 1929 and 453.3 for January, 1930. The indices for 95 commodities produced and consumed in the country were, respectively, 595.8, 505.7, 477.6, 447.9 and 416, and those for 33 exported commodities: 550.3, 462.5, 438.5, 406.6 and 352.7. Thus wholesale prices are falling rapidly; so rapidly that in February gold prices (on the 1913 basis), according to the Milan Provincial Economic Council, were only 120.8 against 122 in England, 129.8 in Germany and 140.9 in the U.S.A. Export prices are, moreover, much lower than import and internal prices, a circumstance

which should pave the way to an increase of exports. Exports, indeed, in 1929 were 329.8 million lire higher than in 1928, and imports 620.4 million lire lower, so that there was a decrease in the trade import excess of 950 million lire. But as the cereal import item alone decreased by 1,413 million lire, it appears that other items contributed an increase in the import balance of 463 million lire. In consequence, industrialists and merchants are complaining that lower prices are not bringing the usual compensation of increased exports. Unemployment in agriculture rose from 89,804 at the end of October, 1929, to 145,342 at the end of January, 1930, but in the preceding year the increase was greater – from 75,473 to 170,444. In all other branches of employment (industry, trade, etc.) unemployment rose from 207,578 at the end of October, 1929, to 320,889 at the end of January, 1930, against an increase from 206,906 to 291,445 in the preceding year. Employment appears thus to be improving in agriculture and slackening in industry and trade.

The announcement by the Bank of Italy of the reduction of the official rate of discount from 7 to 6½ per cent. on March 1st did not change the mood of the market. The Bourses were not even roused by the news of the fusion of two of the Big Four banks, the Credito Italiano and the Banca Nazionale di Credito. The fusion aims at concentrating in the Credito Italiano all ordinary deposit and discount operations, leaving to a subsidiary body, called the Banca Nazionale di Credito, the function of long-term financing of industry.

The strong position of the Bank of Italy is well illustrated by the announcement that yesterday the Finance Minister and the Governor of the Bank of Italy had agreed to raise the embargo on gold and to abolish all restrictions on purchases and sales of foreign exchange. Old restrictions were lately enforced with much leniency; but their legal persistence was unfavourable to import of capital, as foreigners feared that difficulties might be placed in the way of re-export. Exemptions from income tax for foreign loans and debentures issued in foreign countries were at the same time extended to the end of 1933. The financial Press hopes that these measures will be the prelude to a new impetus to industry, which needs more capital than can be provided for by internal savings.

184.

ITALY

THE CORPORATIVE STATE AND ITS COST – LABOUR AGREEMENTS –
 TAX CHANGES – SINKING FUND – INTERNATIONAL TRADE –
 INDUSTRIAL DIVIDENDS

From our Correspondent

Turin, May 19

Even apart from international events, the last few weeks have been full of important political and economic developments. The inauguration of the National Council of Corporations is the crowning of the new corporative State. Signor Mussolini rightly stated that schedule 12 of the law creating the Council meant nothing short of an economic revolution; because the new body is empowered, if such questions are referred to it by agreement of the associations concerned, to legislate on prices, on quantity to be produced and all other possible points concerning industry. The network of syndicalism appears to be now complete. On March 1, 1930, there were in existence six employers' confederations (industry, agriculture, commerce, land transport, sea and air transport, banking) with 661 subordinate associations; 6 corresponding employees' confederations with 3,549 subordinate associations. The cost of this extensive structure is estimated in the report for 1930-31 of the Budget Committee of the Chamber, as follows 25.5 million lire paid to the Corporations Department for general purposes; 24.1 million lire to be paid into a fund guaranteeing the observance of collective contracts entered into by syndicates; 20.5 millions to be paid to the after-work, Balilla, care of mothers and infants, anti-tuberculosis and other social funds; 67.3 millions to the central confederations; 118.1 millions to the regional, provincial and local syndicates and federations. This sum of 255.6 million lire includes only compulsory contributions paid by employers and employees whether they are or are not members of the associations, and consists therefore of true public taxes, of which account is taken in a sort of appendix to the State budget. To this sum there must be

184. June 14, 1930, pp. 1330-1331. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

added the voluntary contributions paid by members of associations. As these are deemed to be a private matter, no account of them is published.

The Budget Committee report observes that, as a set-off, Italy has saved the cost of strikes and lock-outs, which in the last four years of the old *régime* caused the loss of 53 million days' work in the two years 1919 and 1920, and 15 millions in 1921 and 1922. The strike epidemic was subsiding; but the new legislation put a stop to it altogether. Between January 1, 1929, and January 31, 1930, there were concluded 1,238 local and single shop labour agreements; and between April 8, 1926, and March 10, 1930, there were registered 199 inter-provincial and national labour agreements. As syndicates and associations are public bodies, it can be said that to-day conditions of labour are almost completely regulated by public authorities.

A succession of changes in taxation has kept the public keenly interested. The octroi or internal customs barriers which encircled almost all medium and great Italian cities have been abolished. The reform was welcomed because internal barriers obstructed commerce, and sometimes created protected territories of grotesque smallness. As, however, somebody must pay the piper, wine and meat were subjected to a general consumption tax. Wine, for instance, previously paid little in the country and small towns, and was substantially hit only in octroi cities. Now all consumers must pay, whether they reside in the country or the cities. Unfortunately, the wine industry is suffering at present from low prices and sales difficulties.

In consequence of this programme for the reform of local taxation and the redemption of land and other public works, stamp duties have been increased and succession duty reintroduced. Succession duty was abolished in 1923 in the family group, between parents and sons, ascendants and descendants in general, husband and wife, brothers and sisters, uncles and nephews, descendants of brothers and sisters if they succeed by right of representation. The tax is now re-established in full, at rates intermediate between those of 1914 and 1923, but estates passing between parents and sons, or husband and wife, in families where there are or have been at least two sons, are exempt.

The most recent decree concerning taxation enforced an all-round increase of about 20 per cent. in the price of tobacco sold by the State monopoly. The increase is estimated to yield 500 million lire yearly, which will be paid into the Debt Sinking Fund. This fund was created by a decree of August 5, 1927; and was made to rely mainly on budget surpluses. But, as budget surpluses, in our system of accounting, are not synonymous with

hard cash, the old fund made little headway. The new Sinking Fund will be presided over by the Governor of the Bank of Italy, and will have a special administration. The yield of the increase in the price of tobacco will be paid at once into a current account at the Bank of Italy, so as to insure the prompt purchase in the market and cancellation of public debt certificates. Only Consols can be purchased and cancelled.

The practical working of this excellent plan is conditional on prevention of any increase in the total State debt. According to the last published Treasury account, the total of internal public debt increased from 87,124 million lire at June 30, 1929, to 88.026 million at March 31, 1930. If the new sinking fund is to be effective, the grand total of public debt must be lowered.

Statistics of international trade show a big decrease in the passive balance. In 1929 imports were only 21,300 million lire, against 21,920 in 1928. As exports increased from 14,559 to 14,889 million, the excess of imports over exports decreased from 7,361 to 6,411 million. The change has been accentuated in the first four months of 1930, when imports totalled 6,078 million, against 7,723 million in the corresponding period of 1929; and exports 4,139 million, against 4,665 million; so that the excess diminished from 3,058 to 1,939 million lire. It is doubtful, however, if the decrease in imports is wholly to the advantage of the country. It may, indeed, readily be granted that a decrease of 1,237 million lire in the wheat imports in 1929, against 1928, and of 389 million lire in the first three months of 1930, against the corresponding period of 1929, is a net gain; but what of the decrease in the imports of raw materials of industry?

Complaints of bad trade are the loudest in the textile industry. The silk industry carries large stocks, which it has not been possible to sell, as usual, in the United States. The cotton and wool trades complain of sales difficulties in the Levant, the Far East and South America. Directors of joint stock companies, who, in fixing dividends, are more under the influence of prospects for the current year than of results achieved in the past year, to which dividends refer, are in a prudent mood. Out of 130 companies, dividends for 1928 (fixed in 1929) were unchanged as against the preceding year in 64 cases, increased in 55 and decreased in 11 cases only. Out of 135 companies, dividends for 1929 are now unchanged in 79 cases, increased in 31 and decreased in 25 cases. This prudent dividend policy checked the tendency toward better quotation of securities in Stock Exchange. Perhaps the announcement to-day of a new lowering of the official rate of discount from 6 to 5.50 per cent. can be viewed as a consequence of abundance of money. Discounts at the Bank of Italy were low, because ordinary banks

did not need to rediscount, and first-rate customers obtained accommodation at less than the official rate.

185.

ITALY

TARIFF REPRISAL – MOTOR DUTIES – TAX INCREASES –
DIMINISHED REVENUE – PRODUCTION INDICES

From our Correspondent

Turin, July 6

The immediate effect in Italy of the American tariff has been an all-round increase of our Customs duties upon all classes of motor vehicles. Under the 1921 tariff the duties per ton decreased as the weight increased. In the new tariff there are three schedules. The first schedule comprises passenger cars on which the duties are increased to 3,000, 4,000 and 4,400 gold lire per ton for cars weighing respectively, under 0.7 tons, from 0.7 to 1.2 tons, and over 1.2 tons. In the second schedule are included tractors, with a uniform duty of 1,200 gold lire per ton. The third includes all other motor vehicles, *i.e.*, trucks and lorries for the transport of goods. They are classified on the same lines as passenger cars with an extra class for vehicles exceeding 1.8 tons in weight.

Chassis for commercial vehicles pay according to the scale for passenger cars; and chassis for passenger cars pay the duty of the weight-category immediately above their own. As the gold lire must be converted into actual lire at the rate of 3.667, the result is that whereas a one-ton motor car, valued at 14,000 actual lire duty-bound would have paid under the old tariff, 2,385 lire specific duty, and 4,900 lire as 35 per cent. *ad valorem* duty, totalling 7,285 lire, according to the new tariff it pays 14,660 lire. Separate mechanical parts, unfinished, will pay 2,600, and finished parts 4,800 gold lire per ton; other parts, unfinished, 2,000, and finished 4,400 gold lire per ton. Until December 31, 1930, however, this duty will be on a lower scale

185. July 19, 1930, pp. 123-124. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

provided that the imports do not exceed a maximum to be fixed and distributed between the existing factories by a decree of the Finance Minister.

The aim of the new tariff is to exclude, as far as possible, all foreign motor vehicles, imports of which increased in number from 1,648 in 1924 to 7,409 in 1929, and in value from 18.5 to 98.7 million lire. Probably a stop will be put to the import of practically all foreign cars except the very highest class, and tractors, but it is doubtful if exports will increase, as some sanguine men hope. Exports of motor cars from Italy, after increasing from 18,988 in 1924 to 34,194 in 1926, steadily decreased to 23,689 in 1929. The decrease in value is even greater; from 719.9 million lire in 1926 to 355.7 in 1929. If the internal market were large and expansive, the prohibitive protection now granted would make it possible to subsidise exports to such an extent as to push sales in foreign markets, but it is doubtful if such a dumping policy can succeed. If we suppose that internal sales absorb one-half of the total production (in 1928 the number of cars exported was 28,280 out of a estimated production of 55,100), the rise in internal prices would have to be substantial to allow of an adequate export subsidy. Moreover, with all incomes reduced as they are at present, an increase of internal prices would be greatly resented by consumers.

After the big increase in the price of tobacco, a new tax increase was suddenly announced on June 29th: the turnover tax, which was reduced by a Royal Decree on July 28, 1929, from 1 to 0.50 per cent. in general, and from 0.50 to 0.25 per cent. for raw materials, broken iron, building materials, and raw chemical and agricultural products, is again increased to a uniform rate of 1.50 per cent. on the value of sales made in the internal market between producers and middlemen. The yield of the tax which decreased from 783.2 million lire in 1926-27 to 392.2 in the first eleven months of the present fiscal year, is estimated to increase to 1,100-1,200 million lire. The reason of the increase is a new grant of 500 million lire to war, navy and aeronautic budgets, and of 200 million lire to public works. A more general explanation of all the successive recent increases in taxation; in the stamp and succession duties, and coffee, tobacco and turnover taxes, is the slackening of the yield of existing taxation. The total exchequer tax and net public services revenue in the first eleven months of 1929-30 was 15,682.3 million lire, against 16,439.9 in the corresponding months of 1928-29. It seems that the taxable capacity of the country has been stretched to its maximum for the present.

The first agricultural crop of the year has been the occasion of many misgivings. Cocoons, which in afterwar boom years reached 38,000 lire per ton, and in recent years sold 13,000 lire, are now selling at from

8,000 to 6,500, and recent quotations are even lower. Farmers and landholders are bitterly complaining that this price means an absolute loss for them. Silk weavers, on the other hand, retort that they cannot pay more than that, because the loss of the American market makes it very difficult for them to work without loss. Wine also, owing to the reduced incomes of city working men, and to the high consumption tax, is selling badly.

Unemployment, which, in 1929, decreased from a maximum of 489,347 in February to 227,682 in May, decreased in 1930 from the January maximum of 466,231 to 367,183 in May. Goods transported on private customers account on the State railways during the first five months of 1930 amounted to 22.3 million tons, against 23.5 in the corresponding period of 1929. All these are symptoms of the extension to Italy of the general economic crisis. The only favourable symptom is the increase in the production of electrical energy from 2,936,954,000 kilowatts in the first four months of 1929 to 3,130,961,000 kilowatts in the same 1930 period. As electrical energy is mainly sold for industrial purposes, this increase may mean that against the indubitable slackness in the biggest industries of the country, there are at work some factors as yet not ascertained by the official statistics, perhaps in new southern sections, or in lesser industries, which may in future ease the recovery of the economic situation at large.

186.

ITALY

STATE REVENUE – INDUSTRIAL EMPLOYMENT –
MODERATE BOURSE REACTION

From our Correspondent

Turin, August 4

The world economic crisis has had its inevitable effects on the State revenue, as may be seen from the following comparative table of Exchequer receipts:

186. August 23, 1930, p. 364. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

	Twelve months ended	
	June 30, 1929	June 30, 1930
	(Million Lire)	
Taxes on incomes	4,970.5	4,611.2
Taxes on transactions, sales, &c.	3,250.0	3,039.3
Customs and excise	5,723.8	5,214.5
Tobacco	2,252.9	2,374.2
Salt, lotteries, matches	921.0	983.5

Apart from the salt monopoly, whose yield increased owing to the increase in the price of common salt, the only bright spot is tobacco. The sales of tobacco jumped from 20,206 tons in the fiscal year 1913-14 to 29,162 tons in 1921-22, the war having enormously popularised the smoking habit. In the last four years, notwithstanding a rise in the price from an index figure of 100 in 1912-14 to 540 in 1921-22, and 659 in the first ten months of 1929-30, the consumption has been maintained at about 30,000 tons a year. There was much curiosity about the effect of the 23 per cent. average increase in price, effective from April, 1930, which raised the price index from 659 to 812. In the first month the reaction was formidable; sales fell from 2,564 tons in April to 1,755 tons in May; but in June the sales increased again to 2,695 tons – enough to make the Exchequer feel sure that an increased yield will be forthcoming to enable it to pay the estimated 500 million lire yearly to the Consols Sinking Fund.

It is, however, doubtful if the increased tax burden as a whole will favour the much-needed revival of trade and industry. The following figures of some important imports suggest a hand-to-mouth purchasing policy:

	January to May	
	1929 Tons	1930 Tons
Jute, raw	31,335	27,341
Cotton	113,809	109,791
Wool, natural	33,792	27,077
Iron Scrap	398,177	444,828
Pig iron	77,506	75,291
Tinplates	21,723	17,021
Copper	28,528	18,139
Tin	2,184	2,134
Spelter	4,771	2,829
Rubber	7,192	6,807
Cellulose	74,342	76,076

Official statistics show that there is a progressive slackening in the industrial activity. Taking 100 to represent the number of men occupied in a certain number of factories in September, 1926, the relative numbers have declined as follows:

	Index
January, 1929	94.2
July, "	97.0
January, 1930	93.6
February, "	94.1
March, "	93.5
April, "	91.1
May, "	88.6

The figures are not exactly comparable, because the number of reporting factories increased from 5,565 in January, 1929, to 6,490 in May, 1930; but they are indicative of the general trend. The number of unemployed, which in 1929 decreased from the maximum of 489,347 in February, to the minimum of 193,325 in June, decreased between the same dates in 1930 only from 456,628 to 322,291; and the number of insured unemployed in receipt of subsidy was in February, 1930 (the last figure published) 120,286, a figure surpassed only in February and March, 1928.

It is but natural that, in consequence of the lesser needs of trade, the activity of the banks is being contracted. Bank of Italy discounts were low at 2,891 million lire of June 30, 1930, against 4,010 millions at the same date of 1929; advances were 1,609 against 1,994 millions; and notes issued were 15,846 against 16,753 millions. It is interesting to note that, in the face of a deteriorating industrial situation, the fall in quotations of variable dividend securities has been less marked in Italy than in other countries. According to Professor Bachi, the decrease was 2.63 per cent. during the six months between December 31, 1929, and June 30, 1930, and 7.52 per cent. during the year following June 30, 1929. This cannot be called a spectacular decline.

187.

ITALY

SOCIETÀ PER LE BONIFICHE FERRARESI – EFFECT ON STOCK EXCHANGE –
PROPOSED REFORM OF COMPANY LAW – AUDITORS*From our Correspondent*

Turin, September 9

The Italian Stock Exchange opened very badly after the usual mid-August recess, owing to lurid disclosures with regard to one of the oldest and best-known Italian joint stock companies. The Società per le Bonifiche Ferraresi (Ferrara Land Reclamation Company) was founded in 1872 by a group of Italian and foreign, mainly Swiss, capitalists, with the aim of reclaiming malarious and partly-submerged territories in the province of Ferrara, near the mouth of the River Po. The company, which did for a time true pioneering work in a country where only a few fishermen lived, got into difficulties and the shareholders decided in 1882 to put it into liquidation. Another group, this time headed by capable Piedmontese capitalists, reconstructed it in 1898, and its fortunes were thenceforward assured. It owned 23,000 hectares (about 57,500 acres) of well-reclaimed land, with good roads, buildings, machinery and cattle, in what had become the most fertile agricultural belt of Italy. The policy of the old directorate, which was popularly identified with the name of the chairman, Signor Marangoni, was one of conservative dividend distribution, building up of hidden reserves out of undistributed profits, and periodical writing off of capital. In this way the capital was reduced from 15 million lire in 1898 to 9.2 million in 1918.

After the death of Signor Marangoni, the Piedmontese group, in 1919, sold its interests, apparently at a good price, to another group headed by Comm. Gino Lisi, of a different and more adventurous financial school. The capital was rapidly raised from 9.2 to 100 million lire; and while in pre-war times $7\frac{1}{2}$ per cent. dividends were paid on the small capital, in the last years from $12\frac{1}{2}$ to 14 per cent. was paid on the vastly increased capital.

187. September 27, 1930, pp. 572-573. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

The most extraordinary feature of the collapse was that, as recently as last April, a balance sheet was laid on the table at the general shareholders' meeting in which, in addition to the capital of 100 million lire, there appeared reserves to the amount of upwards of 90 million lire, and debts, mostly long-term mortgages, for only 83 million lire. The debts seemed to be amply covered by the assets, among which the lands were said to be very conservatively valued at 136 million lire. Assuming the 23,000 hectares of good land to be worth only 10,000 lire per hectare, it appeared that there was a hidden reserve of almost 100 million lire. The meeting, at which, in a not very prosperous year, profits available for distribution amounted to 15,078,808 lire were announced, passed a unanimous vote of thanks to the chairman and directors.

Suddenly it was made known that during the August recess, the Tribunal of Ferrara, where the company had its administrative seat – its legal seat was always Turin – had granted to the company the benefit of the *concordato preventivo*, that is to say, had initiated a procedure in virtue of which, with the consent of a certain percentage of creditors, the company may settle its debts with the payment of at least 40 per cent. of the sums due to creditors. A balance sheet presented to the Tribunal purported to show total debts to the tune of 250 million lire and total assets valued at only 150 million lire. The moral shock in the Italian bourses was great. How could it happen that 23,000 hectares of the best land in Italy had been swallowed up, so that not a penny remains in favour of the shareholders, and creditors are left with a percentage of 40 per cent., or not much more than that? How can the shareholders of other companies feel sure that lands, houses, machinery and good visible assets will not fade away, leaving them with worthless scraps of paper? The Bonifiche Ferraresi shares, which some time ago were up to 800 lire, and closed before the recess at 160 (par value 200 lire), were offered at from 5 to 20 lire. The market in general was bad and many shares suffered heavily. The public prosecutor instituted a vigorous investigation and his conclusions were certainly of a serious kind, as the chairman, Signor Lisi, and various other directors were arrested.

Though the worst of the shock is over, markets remain sluggish. In the commercial daily *Il Sole* there is published to-day a list of current prices of the shares of 54 big and favourably-known companies, from which it appears that none of them yield less than 6.53 per cent., the great majority ranging from 7 and 10 per cent., four going over 10 per cent., and one going as high as 12.50 per cent. Chances of picking up good shares at low prices seem abundant. To restore confidence, an official *communiqué* announced that joint-stock company law is to be reformed. Such reform is

at present under discussion in many European countries, in consequence of the world stock exchange crises, and of such incidents as the Hatry case in England, the *Gazette du Franc* case in France, and the present affair in Italy. Besides the usual questions, the right of shareholders to have their questions answered, plural voting, the right to a vote of shares pledged as collateral for speculative loans (*riporti*), and items to be compulsorily and separately specified in the balance sheet, one point in particular is raised here: the constitution of the body of auditors (*collegio dei sindaci*). At present the auditors are appointed annually by the shareholders assembled in general meeting, that is to say by the very body which also appoints the board of directors. The consequence is that the group of men who are able, because they possess the majority of shares, or represent such possessors, to appoint the board of directors, are also able to appoint the auditors. These last know that they will only be reappointed if they are subservient to the wishes of the dominant group. Therefore, auditors' reports are mostly colourless and always conclude that everything is in order. Shareholders in such cases as that of the Bonifiche Ferraresi, awake only when it is too late. A solution would be found in a return to the practice which existed before the enactment of the present Commerce Code (1882), of the appointment of auditors by tribunals, from a list of candidates having certain minimum qualifications. The system was then discarded because the auditors, as official employees, without a stake in industry, did not notice irregularities until they were too advanced to be cured. Another suggested solution is to give to a possible minority of shareholders the right to appoint a certain proportion of the auditors.

Perhaps when the markets take a turn for the better, all these discussions will be suddenly forgotten. To-day, in Italy, as elsewhere, much ink is consumed in order to persuade the public to come back to the stock exchanges. It is doubtful whether good regulations can have such an effect; but it is certain that periods of crisis are sometimes useful, as they force on public opinion the necessity of reform.

188.

ITALY

BONIFICHE FERRARESI — WARNINGS BY SIGNOR MUSSOLINI —
BOURSE — INCREASING INVESTMENT BY BANKS —
BANK OF ITALY

From our Correspondent

Turin, October 13

The Società delle Bonifiche Ferraresi affair discussed in my last letter has had a sequel. Several creditors, including a few important banks, opposed the sentence of the tribunal of Ferrara initiating the procedure of composition with creditors (*concordato preventivo*), alleging that the tribunal having jurisdiction over the case was that of Turin, where the company had its legal seat. The issue has been brought to-day before the Court of Cassation, Italy's highest court. In the meanwhile, other serious disclosures have been made. The chairman of the biggest Italian agricultural company, the Istituto dei Fondi Rustici, denounced to the magistrate two of its directors, Signor Anselmi, the managing director, and Signor Clerici, as guilty of having deflected to their private benefit a sum of seven million lire. The dividend was therefore passed and Signor Anselmi arrested. Signor Clerici, who was also a managing director of several other joint-stock companies, mostly in the hotel line, managed to escape. The fall of the Bonifiche Ferraresi threatened to entail the collapse of a co-operative bank (Banca del Piccolo Credito Novarese), which is said to have lent a sum of 50 million lire to the Bonifiche. To avoid panic spreading among 81,000 small depositors (the bank had at the end of 1929 166.5 million lire deposits and 235 millions due to correspondents), a merger was hurriedly arranged with the Banca Popolare di Novara, a big local bank with 70.6 million lire capital, 67.1 millions reserves, 536.9 millions deposits, and 788.8 millions due to correspondents. Thus the panic was stopped in time.

In the meantime, in his speech inaugurating the new Corporations Council, Signor Mussolini spoke strongly on the subject of bad finance.

188. November 1, 1930, pp. 810-811. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

The Government have aided the reorganisation of the Cosulich Navigation Company, and allied concerns, of the Southern Cotton Company (Cotonerie Meridionali), a big firm with over 10,000 hands, the merger of some Catholic banks and of other banks; but were not prepared to lend their aid indiscriminately. Bad financiers should and would be severely punished. Every reader was able to fit the names to his very transparent allusions. A few days after the speech several directors of a Piedmontese bank, the Crédit Valdôtain, were sent to prison. A short *communiqué* of the official Stefani Agency announced that Signor Gualino, the former president of the world-wide rayon concern Snia Viscosa, had settled his debts with the Banca Agricola Italiana of Turin. This bank had, as of December 31, 1929, deposits of 646.7 million lire. It was rumoured that from 250 to 300 millions out of these deposits had been loaned to Signor Gualino and his many affiliated companies. Signor Gualino, until yesterday a big man with artistic leanings (he collected a wonderful gallery of paintings and subsidised the Turin Comedy Theatre), was obliged to hand over to the Bank of Italy his investments in industrial companies, for instance, in the Turin chocolate combine "Unica", his racing stable, landed property, picture gallery, etc. Through this settlement the Banca Agricola Italiana will be able to meet the demands of its depositors and to turn its banking activity to the agricultural field, from which its name and most of its deposits are derived.

A pointed commentary on Signor Mussolini's warnings can also be found in the conclusion of a libel action which Signor Belloni, a former Mayor of Milan, brought before the Cremona tribunal against Signor Farinacci, a former secretary-general of the Fascist Party. Signor Farinacci charged Signor Belloni with having accepted, during his tenure of the mayoralty, bribes in connection with the American loan by Dillon, Read and Company to the Milan municipality, of having received a regular yearly fee of 250,000 lire (£ 2,700) from the Credito Italiano, etc. The Court, considering that the charges had been substantiated, acquitted Signor Farinacci. As a consequence, Signor Belloni was expelled from the Fascist Party.

It is no wonder that these ominous events, following in quick succession, together with the general unsettled state of the foreign stock exchanges and the wholesale crumbling of commodity prices, had a very bad influence on the bourses. Not a single security escaped the bears' attack. The general index of share prices published by the Milan Economic Council (basis 100 = December, 1925), which at the end of 1927, 1928 and 1929 was respectively 80.3, 88.8 and 81.2, and rose to 84.4 on March 1, 1930, fell to 77.2 on August 1st, to 73.8 on Septem-

ber 27th and to 27.8 on October 4th. The next index will be still lower. The only buyers left are the banks, their subsidiary holding companies and the interested groups.

How far this process of buying-in of joint-stock shares and debentures by other companies has gone may be gauged by some interesting figures contained in the twelfth issue of the "Notizie Statistiche" published formerly by the Credito Italiano and now by the Joint-Stock Companies Association. At the end of 1929 the 4,181 companies included in the statistics had a share capital of 42,555.9 million lire and debentures issued to the amount of 5,621.7 million lire. On the assets side, investments in securities total 15,454.9 million lire. This means much interchanging of securities between companies. The principal items in the balance sheets of 269 reporting banks and financial holding companies may be summarised as follows at the end of 1929:

		(Million Lire)	
LIABILITIES		ASSETS	
Share capital	6,636.8	Cash and discounts	17,549.8
Debentures	841.4	Advances on securities and others	3,554.2
Total reserves and carry forward	1,411.6	Investments (securities and participations)	11,148.1
Deposits	9,791.2	Other debtors	14,107.4
Correspondent creditors	22,411.9		
Circular cheques	773.1		
Creditors	4,417.1		

It must be observed that Italian banks, like German banks, have always been in a much closer relation with industry than British banks. Current deposits appear to be very well protected by cash and discounts. During the present year the policy of the banks was one of reducing advances and improving the liquidity of their situation. Nevertheless, the heavy items of investments and other debtors require very careful handling.

Intervention by the Bank of Italy in aid of distressed industrial concerns and banks has so far left no trace on its balance sheet. On September 20, 1930, discounts of the Bank of Italy totalled 2,752.3 million lire, against 3,699.5 million lire at the corresponding date of 1929 and 2,997.8 million lire in 1928. The figures for advances were 1,301.5, 1,490.6 and 1,090.8 million lire on September 20, 1928, 1929 and 1930. On the same dates, the credit of the bank against the Istituto di Liquidazioni, a subsidiary body created for the winding-up of affairs of the rescued concerns, was respectively 1,237.1, 897.5 and 630.5 million lire. The position of the bank appears, therefore, to be steadily improving.

From the decline in the figures quoted above, it can only be inferred that assistance to concerns in difficulties is largely offset by decreases in current operations. This is to be expected during a period of falling prices and restricted turnover. As long as Governor Stringher is at the helm of the Bank of Italy the public is confident that aid is given only against very strong collateral. Twice during his long tenure of office has Signor Stringher borne the brunt of bad times, and twice has the Bank of Italy emerged stronger from the struggle. Let us hope that his banking career will be crowned with a third success.

189.

ITALY

BUDGET DEFICIT – PUBLIC SERVANTS' SALARIES –
PRESS COST-OF-LIVING CAMPAIGN – WAGE REDUCTIONS –
UNEMPLOYMENT – TRAFFIC – FOREIGN TRADE

From our Correspondent

Turin, December 1

The Budget situation, which had been slowly deteriorating for some months, revealed disquieting symptoms at the end of October, since the effective expenditure rose for the first four months of the present financial year to 7,081.6 million lire, against a revenue of 6,394.7 million lire. With the exception only of the net revenue of the railways, postal, telegraph and telephone services (+ 19.7), lotteries (+ 5.6) and wheat duty (+ 161.1), all other heads of public revenue showed signs of slackening: income tax declined by 136.1 million lire; stamp and registration duties by 276.4 million lire; excise by 86.6 million; customs by 42.4 million; salt and tobacco by 128.3 million.

The Government took immediate steps to face the situation. Salaries of public servants had been increased in the spring of 1929 by about 25 to 30 per cent., according to class, half of the increase being payable as from July 1, 1929, and half as from July 1, 1930. A royal decree of November 20,

189. December 13, 1930, pp. 1115-1116. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

1930, published in the Official Gazette for November 26th, reduced them again uniformly by 12 per cent. The exchequer will thus save 400 million lire for the present fiscal year and 700 million in a full year. The 12 per cent. decrease in wages and salaries was made compulsory also for all employees of provinces, municipalities, and other public bodies, employers' and employees' syndicates depending upon the State, provinces or municipalities, or maintained, wholly or partly, out of public revenue. Salaries of such employees, between 40,000 and 60,000 lire, will be reduced by 25 per cent. and those above 60,000 lire by 35 per cent.

This reduction of the salaries of public employees was the signal for a Press campaign for a thorough-going reduction in the cost of living. Campaigns of such remarkable vehemence are, perhaps, a peculiar feature of Italy. The main subjects of the inflammatory exhortations were bread, meat and other necessities of life. Willingly or not, retailers were invited by their associations to reduce prices by 10 or more per cent. The corporative system was called in aid. For instance, house-owners had been on July 1th restored to complete freedom in fixation of rents. The transition from a regulatory system to complete freedom of bargaining was easy and did not give rise to friction. To-day, however, house-owners are asked by their association to contribute to the general reduction in the cost of living by a reduction of rents. The reduction is not legally enforceable; but the house-owner is reminded that he is liable to exclusion from membership of the association as an unworthy citizen. To be so labelled is not a pleasing prospect. The general cry in the Press is: "Back to four times the pre-war prices". The co-efficient four is the result of the 3.67 multiplier adopted for the stabilisation of the lira, with a small addition to take account of the depreciation of gold. In a few cases, producers have endeavoured to prove that their case is exceptional. For instance, sellers of electricity assert that the price of electric light has only tripled since 1914 and that the big increase in the price paid by the consumer is mainly due to the increase in state and municipal taxation of electricity for illumination. Taxation in general, increased from seven to eight times the pre-war level, is, indeed, the most difficult item of cost to diminish. In his speech in the House of Deputies on November 27th, the Finance Minister, signor Mosconi, offered no hope of reduction in taxation in the near future. The reduction in public employees' salaries was prompted by the urgent need for avoiding a deficit and maintaining the state credit. He disclaimed vehemently any Government intention of also reducing the interest paid on Consols and other State Loans.

One after another the great corporations and public bodies are follow-

ing the lead given by the Government. The Chamber of Deputies has reduced the members' salaries by 12 per cent., notwithstanding the fact that they were just four times the pre-war rate. Their example will undoubtedly be followed by the Senate and the Academy of Italy. The Bankers' and Banking Employees' Confederations have agreed to reduce the salaries of the employees by 12 per cent. and the fees and other perquisites of directors by 25 per cent. Fees of joint-stock companies' directors are to be reduced also by 25 per cent. Industrial wages will be reduced by 8 per cent., except where they are below 12 lire per day in cities of over 200,000 inhabitants and 8 lire in other cities. Wages of men working only three days per week are not to be reduced. Monthly salaries of industrial employees between 300 and 1,000 lire will be reduced by 8 per cent.; over 1,000 lire by 10 per cent., always provided that a minimum salary of 300 lire is paid.

Time will show whether these reductions will be sufficient to reabsorb the unemployed, whose number rose from 322,291 at the end of June to 446,496 at the end of October. In 1929 the corresponding rise was from 193,325 to 297,382. Taking the number of men employed in a certain number of factories in September, 1926, as 100, the corresponding number was 94.2 in January, 1929, 97.0 in July, 1929, 93.6 in January, 1930, 87.9 in July, 1930, and 87 in September, 1930. At the latter date, cotton (75.2), linen and hemp (73), motor cars (73.9), railway materials (76.3) were well below the average; while artificial silk (111.8), jute (100.7) and electric machinery (105.5) employed more men than in September, 1926.

After a discussion lasting twenty-seven days, the federations of sugar-beet growers and sugar makers reached on November 27th an agreement in virtue of which 413,000 acres of land will be devoted to beet-growing and work will be assured to raise all the sugar necessary for internal consumption. To that end a royal decree of the same day increased the duty on foreign sugar from 360 to 450 gold lire per ton until October 31, 1931. This will exclude foreign and especially Czechoslovakian sugar from Italy; but sugar makers have pledged themselves not to increase its price in the meantime.

The figures of goods carried on the railways, a sensitive index of the economic situation, show widespread reductions. Goods loaded on railway cars in the first nine months of the year for trade account amounted to 40.1 million tons in 1930, as against 45.1 in 1929; goods loaded in the ports to 9.4, as against 10.8; goods entered by land from foreign countries 4.5, as against 5.1; goods exported by land to 2.0, as against 2.3. A decrease of the tariffs for carriage of goods on State railways is contemplated, and a committee has been appointed to work out the details in the briefest possible time.

The value of imports in the first ten months of the year decreased from 18,008.9 million lire in 1929 to 14,417.1 in 1930, or 20 per cent.; exports from 12,468.9 to 10,110.1 million lire, or about 19 per cent. As the weight of the goods imported decreased in the first nine months only from 20.7 million tons to 18.9, or 8.6 per cent., and of goods exported from 3.5 to 3.3 million tons, or 8.5 per cent., it appears that the main cause of the foreign trade contraction is the fall in prices.

190.

GOVERNOR STRINGHER

Our Turin correspondent writes: The death, on Christmas Eve, of Signor Stringher, Governor of the Bank of Italy, is a grave loss both to the bank and to the country. Born at Udine in 1854, Senator Stringher was a student at the Venice School of Economics during the time when Italy's greatest nineteenth-century economist, Francesco Ferrara, was director of the school. In 1875 he was called by Signor Bodio to the Central Statistical Office at Rome, and he rose rapidly from one responsible office to another. The Bank Act of 1893, of which, as Inspector-General of the issue banks, he was the principal author, was the outcome of the banking crisis which followed the Banca Romana scandals and the note forgeries of that year, and still remains the foundation of Italian banking law. Signor Stringher became a Member of Parliament in 1900 and was soon appointed Under-Secretary of State to the Treasury. On the death of Signor Marchiori he was appointed Director-General of the Bank of Italy and in this office, which was changed to that of Governor in 1928, it was his duty to administer the Act of which he had been the main author. Under his guidance the Bank of Italy greatly improved its position and successfully withstood the crisis of 1907 and the still greater strain imposed by the war. Small of stature and unassuming in manner, Signor Stringher was noted alike for his courtesy to visitors and for his ability to soften, by the manner of its utterance, the negative reply which it is perhaps the first duty of the Governor of a bank of issue to know when and how to give. It is difficult, if not im-

190. January 3, 1931, p. 12. The article, unsigned, was published in the section: "Notes of the Week". Its attribution to Luigi Einaudi is certain from correspondence between Einaudi and the editorial staff of *The Economist* (letter of Luigi Einaudi to D. E. Rhodes, December 26, 1930, in the Einaudi archives).

possible, to determine whether he made a firm enough stand against government pressure for constant new note issues during the war, but it is certain that he made a firmer stand than many of his colleagues in other countries and that he subsequently succeeded in reducing the issues from over 22,000 million lire to less than 16,000 millions. The balance sheet of the Bank of Italy at the time of his death is a testimonial to the soundness of his administration. In addition to his practical banking activities, Signor Stringher held a chair at the University of Rome for some years and was a member of many learned societies. His annual reports to the shareholders of the Bank of Italy will remain a classic source of the economic history of Italy during the first thirty years of this century.

191.

ITALY

NEW BANK GOVERNOR – STOCK EXCHANGE –
COMPANY EMBARRASMENTS – BANK RETURN

From our Correspondent

Turin, January 15

The Board of Directors of the Bank of Italy, which exercises functions rather of supervision on behalf of the shareholders than of direct management, has appointed Signor Vincenzo Azzolini as successor to Signor Stringher, the late Governor. The appointment was agreed to by the Government, as is required by law and the rules of the bank. Many other names were rumoured, including those of prominent politicians; but the Government and the representatives of shareholders' interests evidently felt that the bank ought to be kept away from even the suspicion of meddling with politics. Signor Azzolini, like Signor Stringher, comes from the ranks of Treasury officials. Born in 1883, he took part in the Paris negotiations which led, in 1906, to the conversion of Consols from 4 to 3.50 per cent; in 1927 he was appointed Director General at the Treasury, and soon afterwards Director General of the Bank of Italy, when Signor Stringher was created Governor.

191. January 31, 1931, pp. 231-232. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

The best wishes of the economic and financial community greet the new Governor at his accession, especially as it comes at such a difficult time. Last year was a thoroughly bad year for all those concerned in finance. There is no direct connection between the big campaign for the reduction of prices initiated with the reduction of public employees' salaries on November 20th and the state of the bourses. Nobody asked for a fall in the securities quotations. But the bourses were, as it appears, in an irritable and gloomy temper, and a new slump took place. The following are the indices of variable-dividend shares, as worked out by the Milan Council of Economy:

	December, 1925 = 100					
	Dec. 29, 1928	Dec. 24, 1929	May 3, 1930	Oct. 31, 1930	Nov. 29, 1930	Jan. 3, 1931
Banks	110.5	98.2	102.4	95.3	92.8	92.4
Navigation and trans- ports	80.4	80.2	84.0	73.8	68.7	66.4
Textiles	42.6	24.3	28.4	21.8	20.1	19.0
Minerals, metallurgi- cal and engineering	97.0	76.1	80.0	66.9	63.1	60.8
Electrical	103.3	99.2	100.5	89.1	82.7	77.6
Land and real estate .	80.5	71.1	68.4	61.5	51.2	48.0
Food and miscella- neous	96.7	98.0	104.5	86.1	80.5	73.1
General index	88.3	81.2	84.2	74.2	69.4	66.4

After a short-lived spurt in the spring, quotations went from bad to worse, until in some groups of stocks the unlucky shareholders have been left with a thin slice of their former assets. Banks, the electrical industry and food have sustained best the brunt of the depression. The slump in individual cases was much more marked than the indices suggest. For instance, *Cotonificio Veneziano's* index was, on January 3rd, at 3.54; *Snia Viscosa* at 8.58; *Officine Meccaniche* at 5.09; *Aedes* (real estate) at 10.16; and *Fondi Rustici* at 13.25 per cent. of their 1925 basis. *Bonifiche Ferraresi*, after being, on August 29th, down to 2.63, were dropped altogether from the index, as past any hope of recovery; and the *Roman Immobiliare Co.* was substituted.

The feature of the slump was the fall of old-established concerns, which were considered as a safe port for thrifty and prudent investors. Only less astonishing than the fall in *Bonifiche Ferraresi*, of which I have written in previous letters is that of *Fondi Rustici*. This is a company formed in 1905 to buy a vast extent of agricultural land, which after the 1893 crisis had been left by mortgaged owners to the Bank of Italy. The

purchase consideration was so low that, with careful management, the company ought to have had a very successful career. Successful it was, indeed, for a time; until, after the inflation, the demon of selling good old developed estates and embarking in new speculative ventures took hold of the board of directors. A merger with a company formed to redeem the ancient Pontine marshes and some dubious transactions between directors precipitated the situation. With great patience, under the leadership of men of experience, reconstruction should ultimately prove possible.

The same may be said of another big affair which is attracting the attention of thousands of capitalists and families of very modest means in Northern Italy. The Italiana Gas Co. was a small Turin concern started in 1856, with an original capital of 3,500,000 lire, which in 1907 had been as yet only increased to 4 million lire. In 1918 the capital was increased to 10 millions, in 1924 to 80, in 1925 to 130 and 146, and in 1928 to 260 million lire. The old gas-producing concern was transformed into a holding company. How many companies were affiliated with the Italiana Gas Co. is not easy to know; certainly not less than 32. The net of interlocking capitals and of huge debts became so entangled, that a winding-up was necessary. At a stormy meeting of the shareholders a new board of directors was appointed, charged with the disagreeable duty of reconstruction. The new chairman of the board is Senator Frassati, an ex-Ambassador to Berlin, an energetic man, who has kept aloof from politics since 1923. Shareholders trust that he is the man best capable of rescuing from the wreck as much as can be saved; but in the meantime shares, which rose during the speculative frenzy as high as 800, are changing hands at 45 lire.

The technical situation was made worse by the announcement on the morning of December 30th that Signor Giani, a widely-known broker in Milan, was not to be found at his usual desk in the Bourse and had sent a letter purporting to show that he was unable to meet his engagements. As these amounted to about forty million lire, the monthly settlement appeared difficult. It soon became apparent, however, that somebody would have to intervene; and Signor Mazzotti-Biancinelli, perhaps the best known speculative Italian financier, came forward with an offer, as principal of the defaulting broker, to pay Giani's debts by instalments distributed over the next two years. The interesting fact was that Signor Mazzotti and Giani, universally considered as professional bears, should have come to grief over bull transactions. Obviously the difficulty of digesting so big a figure as 40 million lire makes bourses uneasy; and everybody is asking whether we are at the bottom of forced liquidation and low prices, or not.

As yet liquidation of bad businesses and distressed concerns has not

affected that bulwark of financial sanity, the Bank of Italy. The public was somewhat disturbed that gold and gold securities fell below the 10,000 million mark for the first time after the stabilisation on November 20th. On December 20th total reserves were at 9,590.7 million lire, against 10,260.1 on September 30th; a serious loss of 669.4 million, probably caused by big imports of wheat in recent months. As, however, the notes issued decreased also, between the same dates, from 16,171.7 to 15,608.5, while discounts and advances, as shown below, are normal, the monetary situation seems sound.

Discounts and advances			
(Million lire)			
	1928	1929	1930
March 31 th	3,911.7	5,299.1	4,489.5
June 30 th	4,948.2	6,132.5	4,730.4
September 30 th	4,509.4	5,571.9	4,247.6
December 31 st	5,655.9	6,233.9	4,789.0*

* December 20th.

What the proportion of frozen credits, if any, to the total may be, it is impossible to say, but certainly as long as there is no inflation in the discount and advances figures of the Bank of Italy, the core of the economic situation is sound, and, no matter how long the depression drags on, no essential organ is out of gear.

192.

ITALY

FOREIGN TRADE. — For the first time since 1921 foreign trade has experienced a severe slump. Imports, which, in present stabilised lire, increased from 13,868 million lire in 1921 to 21,800 in 1929, decreased to 17,351 millions in 1930. Exports, which had increased from 7,487 million lire in 1921 to 14,889 in 1929, decreased to 12,119 millions in 1930. The major part of the slump is owing to the decline in prices. From indices below it appears that between 1929 and 1930 prices of exported goods de-

192. February 14, 1931, pp. 15-17. The article, unsigned, was published in the supplement: *The Economist. Commercial History & Review of 1930*. Its attribution to Luigi Einaudi is certain because a typewritten copy is kept in the Einaudi archives.

creased 96.7 points, while those of imported goods only 67.3 points. According to another set of figures of the Industrial Confederation, however, both indices have varied at about the same rate; so that the comparative bargaining position of Italy should not have been impaired. The fact that, notwithstanding a decrease to about half the 1925 cost, the volume of imported raw materials decreased during the months July-September, 1930, to about 72 to 82 per cent. of the 1925 basis, suggests that a decrease in industrial stocks occurred. When a revival comes, the imports of raw materials should be the first to rise. The excess of imports over exports was only 5,232 million lire in 1930, as against 6,429 in 1929. How this deficit has been covered is difficult to tell. No loans were made in foreign countries, current foreign accounts in Italian banks are not said to be increasing, some Italian securities were repatriated, and the gold reserves of the Bank of Italy increased by 106.7 million lire. The one adverse item known, the decrease by 863.6 millions of the foreign exchange reserve of the Bank of Italy, does not suggest, however, a strong pressure on the liquid resources of the country towards the balancing of foreign trade payments.

CROPS. — Wheat had a poor year, while yields of corn, sugar beet, rice, potatoes, raisins, and hemp were larger or not much smaller than in the past two years. Prices were much lower; and the trend was not stemmed by increases in custom duties. The internal price of wheat at about 100 lire per quintal, and that of raw rice at 45, are the worst that have been seen in the last two generations. No wonder that the consumption of artificial fertilisers in past autumn has alarmingly decreased; so that lower prices are offered to induce agriculturists not to slacken their efforts.

INDUSTRY. — The use of electric power, which is a good index of industrial activity, has progressed, taking into account also imported power, from 8,933.7 million Kw. during the first 11 months of 1929 to 9,148.2 Kw. during the corresponding period for 1930. Possibly the increase is due more to an extension of plants than to an increase of production in old plants since; from October, 1929, to October, 1930, the installed power increased from 3,735,000 Kw. to 4,139,000 Kw. Commercial imports of coal decreased from 9,521,000 tons in 1929 (10 months) to 8,894 in 1930 (same period), and imports of reparations coal from 2,546,000 to 2,082,000 tons. Petrol and oil imports were 555,000 tons in the first nine months of 1930, as against 699,000 tons for the whole of 1929. Unemployment increased throughout the year: the lowest figure was 322,291 at the end of June, and the figure of 642,169 reached at the

end of December, 1930, is the maximum of the last ten years. Traffic on the State railways is decreasing: 53 million tons of goods were loaded in 1930, as against 60.3 in 1929; 97.6 million passengers were carried in 1930 (11 months), as against 108.0 in 1929 (same period). Navigation, and the output of textiles, cement, superphosphates, rayon, paper, and minor metals have been maintained; but profits are less, or vanishing. Building permits were issued for houses aggregating 129,560 rooms in 1930 (10 months), as against 158,429 in 1929 (same period). The number of bankruptcies is still rising: the monthly average for 1930 was 1,029, against 956 in 1929, and 933 in 1928.

PRICES, WAGES, COST OF LIVING. – The usual discrepancy between wholesale prices, the index of which was 368.6 in December, 1930 (1913=100), retail prices (482.1), and cost of living (517.6) exists in Italy as elsewhere. A campaign has been organised against the high cost of living, beginning with reductions of salaries and wages and of rents. But the continued fall of wholesale prices has maintained the distance. Wages are beginning to decrease; but, as the lowest wages were exempted from the reduction agreed upon between the employers and the employees' associations, the general average is only slightly affected. Short time and unemployment are reducing the yearly earnings of the workers.

SAVINGS AND NEW CAPITAL ISSUES. – Diminished incomes necessarily have reacted unfavourably on savings and investments. Saving banks deposits are almost stationary, their increases being limited to capitalisation of interest. The same may be said of the deposits of ordinary banks. Investments in joint-stock companies totalled only 2,641 million lire in 1930 (11 months), as against 4,615 in 1929 (same period). Debentures issued in the first 11 months totalled 1,028 millions in 1930, against 1,421 in 1929. As there were several failures of minor banks, and forced amalgamations of others, there was probably an increase in direct investments, especially in the country, and of the hoarding habit. Active note circulation should therefore be calculated at less than the total issues.

MONEY AND STOCKS. – Foreign exchanges were maintained, with very slight variations, near the upper gold point of 19.10 lire to the dollar. The official rate of discount, beginning the year at 7 per cent., was reduced to 6.50 per cent. on March 3, to 6 per cent. on April 24, to 5.50 per cent. on May 19. Market rates for commercial paper were lowered gradually from 6.75-7 to 5.50 per cent., for financial paper from 8.50 to 6.50-7.50 per

cent. Prolongation rates for industrial first-rate securities went down progressively from 6.50-7.25 to 5.25-5.75 per cent. At the end of the year money was to be found in the bourses, on 3.50 per cent. Consols, even at 2.50-3 per cent., and on 5 per cent. Consols, at 4-4.25 per cent.

PUBLIC FINANCE. — The financial year 1929-30 closed with a surplus of 151 million lire. During the first six months (July 1st to December 31st) of the present financial year, accounts disclose a deficit of 951 million lire; which was the justification for a reduction of 12 per cent. of all salaries of public employees. Public internal debts increased from 87,134 million lire on June 30, 1929, to 88,102 on June 30, 1930, and to 88,781 on December 31, 1930.

ITALY

	1928	1929	1930
Trade:			
Imports (million lire)	21,920	21,300	17,351
Exports (million lire)	14,559	14,889	12,119
Agricultural Production (in 1,000 tons):			
Wheat	6,221	7,079	5,738
Maize	1,588	2,434	2,866
Rice	631	673	651
Potatoes	1,490	2,003	1,945
Raisins	7,503	6,492	5,849
Hemp	86	90	91
Sugar beet	2,861	2,925	3,025
Industrial Output (in 1,000 tons):			
Pig iron	507.6	678.5	534.3
Steel	1,963.1	2,142.8	1,774.1
Sheet iron	1,849.1	1,951.8	1,531.4 *
Lead	21.3	22.7	22.7
Spelter	10.6	15.7	15.7
Aluminium	3.6	7.0	7.0
Cement (monthly average)	256.4	326.7 *	316.7 *
Superphosphates (monthly aver.)	87.1	118.4 *	129.0 *
Rayon (monthly average)	2.17	2.94 *	2.75 *
Paper	26.9	31.5 *	31.5 *
Industrial Production Indices:			
Building permits in 17 cities (number of rooms)	—	187,355	129,560 ***
Electric power (hydro-electric, thermo-electric and imported) mill. kw.	—	9,745.2	9,148.2 *
Imports of coal: commercial 1,000 tons	9,152	11,481	8,894 ***
Imports of coal: reparations 1,000 tons	3,544	3,122	2,082 ***
Imports of petrol, oil, &c. 1,000 tons	607	699	555 ****
Consumption of cotton in years ending July 31 (1,000 bales)	954	1,038	1,001
Transport:			
State railways: commercial goods loaded (1,000 tons)	56,692	60,343	52,998

ITALY UNDER FASCISM, 1925-1935

State railways: number of passengers carried (1,000)	112,238	116,891	97,649 *
State railways: traffic receipts, in years ending June 30 (mill. lire)	4,478	4,666	4,606
Shipping tonnage entered (1,000 tons)	27,327	28,091	32,627
Prices, Cost of Living, Wages (basis 1913=100, when not otherwise stated):			
Annual average wholesale prices:			
Home goods	484.5	475.1	406.9
Imported goods	506.1	491.7	424.4
Exported goods	479.6	452.8	356.1
General index	491.4	480.7	411.0
Gold index of wholesale prices	133.9	130.5	111.6
Retail prices of 21 commodities (December average)	563.9	554.2	482.1
Cost of living, Milan (January-June, 1914=100) (December average)	537.8	549.2	517.6
Wages (July, 1928-June, 1929=100) (end of December)	101.6	102.6	99.5
Unemployed (end of December) thousands ...	363.5	408.7	642.2
Money Market, Finance:			
Note circulation, end of Dec. (mill. lire)	17,295.4	16,774.3	15,680.3
Gold reserve, end of December (mill. lire)	5,051.8	5,190.1	5,296.8
Foreign exchange reserve, end of December (mill. lire)	6,018.9	5,191.1	4,327.5
Post office savings bank deposits (mill. lire)	10,819	11,778	12,414 **
Other savings bank deposits (mill. lire)	15,685	16,459	16,913 **
Net increase of share capital of joint-stock companies (mill. lire)	2,698	4,645	2,641 *
Stock exchange: index of 35 leading shares (basis Dec., 1925=100)	88.3	81.2	66.4
Stock exchange: index of 14 Milan debentures (basis Dec. 1925=100)	101.9	99.3	102.0
Money Market, Finance-cont.			
Total clearings (mill. lire)	780,508	741,143	598,921 *
Number of bankruptcies	13,346	12,906	15,789
State revenue (year ending June 30) (mill. lire) .	19,710	20,201	19,397
State expenditure (year ending June 30) (mill. lire)	19,222	19,646	19,746
Public internal debt (June 30) (mill. lire)	86,446	87,134	88,102

* 11 months. ** End of October. *** 10 months. **** 9 months.

193.

ITALY

STOCK EXCHANGE – REVENUE AND EXPENDITURE – RAILWAY TRAFFIC –
FOREIGN TRADE – UNEMPLOYMENT – PRICES

From our Correspondent

Turin, March 6

If Stock Exchanges accurately forecast impending economic developments, Italy is one of the countries in which there is hope that the bottom of the depression has been reached. As usual, fixed interest securities are recovering first: Five per Cent. Consols, which in October, 1929, were as low as 78.09, and in January, 1931, were at 80.38, are to-day 82.50 and are in lively demand. The index number of 14 mortgage and industrial debentures, compiled by the Milan Economic Council (December, 1925=100), rose continuously from 99.30 on December 24, 1929, to 102.10 on January 3, 1931; then, more rapidly, to 103.96 on February 28, 1931. Middle class and country savers, unwilling to invest in industrial shares, are buying largely state and land credit securities. Postal Saving Certificates, which pay 5 per cent. after the first complete year, slowly rising to 6 per cent. after five years, are enjoying great favour. Net issues amounted to 338.5 million lire in 1926, 871.4 millions in 1929, and 1,178.5 millions in 1930. Variable dividend shares are slowly following suit, but the force of the slump seems to have been spent at the beginning of the year, when (on January 3rd) the general Milan index touched 66.42, as against 81.24 on December 24, 1929 (December, 1925=100). On February 28th the index was up to 69.56. The upward movement, though retarded by bull liquidations, was recently aided by the discomfiture of some bear operators. One well-known Milanese business man, for example, was caught with a load of about 417,500 oversold shares of the most miscellaneous description, for which he was obliged to seek cover

193. March 14, 1931, p. 563. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution is certain because the original manuscript, entitled "Italy. Trend of savings toward fixed interest securities. Better anticipations in the Bourses. State budget. Traffic, foreign trade, unemployment, electrical energy number index. Wholesale and retail prices", dated "Turin, March 5, 1931", is kept in the Einaudi archives.

with a big loss, provisionally said to amount to £ 100,000 at the February settlement.

In contrast to stock exchange anticipations, economic indices of past events give a mixed impression. The first seven months of the financial year show a Budget deficit of 1,041.2 million lire; but as our system of accounting, which shows figures of income and expenditure *due* to be received or made on the current year appropriations, is too scientific for British minds, I prefer to quote the effective receipts into and payments out of the Exchequer during the same seven months' period, as from July 1, 1930. These show 10,329.4 million lire receipts and 10,506.6 millions payments, with a *cash* deficit of 177.2 million lire.

If the Exchequer situation may be considered fairly strong, other indices are less encouraging. Passengers carried on State railways decreased from 8,039,355 in January, 1930, to 6,684,832 in January, 1931, and passenger revenue from 113 to 96 million lire. Goods carried in January, 1931, amounted to 3,493,121 tons, against 4,404,171 in January, 1930, and goods traffic only yielded 171, against 220 million lire. Energetic efforts are being made to counteract this decrease by such measures as reduction of personnel expenditure from 184 to 166 million lire, and curtailment of the train service.

Provisional figures of foreign trade for January give imports at 1,028.6 million lire, as against 1,505.5 in January, 1930, and exports at 695.6, against 974.9 millions. The excess of imports over exports has decreased from 773.1 millions in January, 1929, to 530.6 in January, 1930, and to 333 millions in January, 1931; but clearly industry is buying from hand to mouth and drawing on stocks. When trade revives a scramble for raw materials is bound to take place. The number of unemployed reached 722,612 in January, 1931, against the previous maximum of 642,169 for 1930 (December) and 489,347 for 1929 (February). The consumption of electrical energy was 9,930.5 million k.w.h. in 1930, against 9,745.2 k.w.h. in 1929. Only in August, November and December was consumption less in 1930 than in 1929.

Wholesale prices are lower than in 1913. The general index (1913=100), which was 526.67 in 1927, was in the last week of February as low as 357.14. As at the same date the gold exchange was 368.48, gold prices are 96.9 per cent. of the 1913 basis. Industrial goods have suffered most; their index is 349.35, while food commodities remain at 376.32. The cost of living (June, 1, 1927=100) had remained at about 93 during the years 1927, 1928 and 1929, and decreased in 1930 to an average of

90.72; but after the campaign which began last November the index fell in December, 1930, to 86.56 and in January, 1931, to 84.09; the food index fell in January to 82.59. There is as yet a big gulf between wholesale prices, which have fallen since the middle of 1927 by about 32 per cent., and the cost of living, which is down by only 16 per cent. There, perhaps, lies the greatest hindrance to a new equilibrium between the prices received by industrial and agricultural producers and their costs of production.

194.

ITALY

RAILWAY TRAFFIC AND ROAD COMPETITION –
WINDING UP OF BANCA AGRICOLA ITALIANA –
SUPERVISION OF SAVINGS BANKS – BOURSES

From our Correspondent

Turin, April 20

The decrease in railway and shipping traffic continues; during the first two months of 1931 goods unloaded in the ports were 3,622,000 tons, against 4,338,000 in the corresponding period of 1930; goods shipped 1,179,000 against 1,414,000 tons. Goods carried on railways decreased from 9,576,000 tons in the first two months of 1930 to 7,595,000 in the corresponding period of 1931. Passengers decreased from 15,175,437 to 12,542,255. Total traffic receipts, therefore, were reduced from 652 to 519 million lire.

These figures, which are disconcerting enough, have given rise to a lively discussion, as the economic crisis is considered an insufficient explanation of the abnormal slump in the traffic. The spokesmen for the railways denounce road competition as especially responsible for the financial difficulties of the railways, and demand the extension to motor goods transport of the regulations already governing passenger transport. Direct road competition for passengers is not allowed between places where a regular railway service already exists. State authorisation is required before

194. May 2, 1931, pp. 944-945. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

starting a new passenger service, and such authorisation is given only when the motor service acts as a feeder of railways or when it serves areas not touched by railways. This restriction has not, it is alleged, prevented the growth of auto services, the lineage of public extra-urban passenger services having increased from 40,471 kilometres in 1922 to 85,450 in 1929, and the number of passengers carried in 1927 (the last year for which detailed figures are published) being 31.5 millions, with a revenue of 142 million lire.

It is argued that the same restriction should be extended to the carriage of goods by lorries, which at present is free and offers the keenest competition. Signor Bognetti, president of the largest Italian tourist organisation, the Touring Club, wrote an alarmed letter to the *Corriere della Sera* pointing out that motor cars paid in taxes the whole cost of the upkeep and improvement of the roads which they use, and that the proposed restriction would be an unjustifiable blow to an industry which is growing rapidly by virtue of the facilities it offers to its customers. Incidentally the unrestricted competition for goods seems less dangerous than the restricted competition for passengers, for the freight revenues of the State railways increased from 2,849 million lire in 1927-28 to 3,017 in 1929-30; while the passenger revenue decreased from 1,629 to 1,589 million lire. Even in the first two months of 1931, when the comparison with 1930 was most unfavourable, the revenue from goods decreased only by 36 per cent., while passengers yielded 40 per cent. less. The problem is made worse by the fact that here railways are the property of the State, and that automobile competition is directly damaging the public exchequer. This is a strong argument against State operated railways. Collective interest and technical economic progress should not be made to conflict.

On April 7th all the offices and deposits of the Banca Agricola Italiana, with head offices in Turin, were taken over by other banks or institutes: in Piedmont by the Saint Paul Institute, a three centuries old Turin credit and mortgage bank; in the South of Italy by the Bank of Naples; in Tuscany by the Monte dei Paschi; and in other parts of Italy by several other banks. At the end of March the Banca Agricola Italiana held 850 million lire deposits. The president of the Saint Paul Institute, which is taking over the largest share of the deposits of the liquidated bank, hastened to circulate an interview, assuring its customers that the institute had made itself responsible for these 250 million deposits, only after being amply guaranteed by the cession of assets and other sureties for the corresponding amount. Thus has terminated the career of a bank which enjoyed a mushroom growth im-

mediately after the war. Hundreds of offices were created in the country districts, with the sole purpose of collecting deposits and sending them to the head office in Turin, where it was current rumour that they were diverted to the financing of the Snia-Viscosa and other Gualino concerns. The situation became eventually embarrassed, and the present winding-up and distribution of deposits amongst well-established banks is the final outcome of it. The salvage was made under the auspices of the Bank of Italy, to which is entrusted the supervision of all banks and savings banks.

The chapter on the supervision of savings is perhaps the most interesting part of the first report read to his shareholders by Signor Azzolini, the successor of Signor Stringher in the Governorship of the Bank of Italy. The reduction in the number of banks which was already in progress, continues. Between March 1, 1930, and February 28, 1931, there were cancelled from the lists kept at the Treasury 51 banks because their liquidation was completed, 69 because they ceased to receive deposits, and 35 in consequence of fusion with other banks, making 155 in total. Against this only one new bank was allowed to start business, 73 requests for the opening of new branches of old banks were approved (against 75 similar requests refused) and 85 old branches were allowed to move in order that they might be better located. The banking organisation is thus slowly becoming more concentrated, but the number of banks is still great; the official list includes, as of February 28, 1931, not less than 200 savings banks, 1,375 banks and banking firms, and 2,387 agricultural co-operative banks (*casse rurali*), making a total of 3,962.

The stock exchanges are lifeless. The only keen demand is for fixed-interest securities, the Milan index rising from 102.01 on January 3rd, to 104.91 on April 11th (December, 1925=100). Variable dividend securities are sagging, as many companies are passing their dividends and others reducing them. The index fell between the same dates from 66.42 to 64.70.

195.

ITALY

TREASURY BONDS ISSUE – SINKING FUND – TAXATION PROBLEMS –
ECONOMIC INDICES – BALANCE OF TRADE – EMIGRATION

From our Correspondent

Turin, May 27

The subscription to a 4,000 million lire issue of 5 per cent. nine-years Treasury bonds at 95 was closed with a total subscribed of 7,000 millions – a very remarkable success. The issue is intended for repayment of 3,807 million lire 5 per cent. bonds, due on November 15, 1931. The new bonds are very similar to the old ones, carrying the right to a greater number of yearly premiums, viz., eight of one million lire each, eight of half a million, sixteen of 100,000 lire, etc. Old bonds sold before the issue at 99.50 and bearers were entitled to exchange them for the new ones with a refund of five lire. As the issue was over-subscribed, the excess will be used to ease the situation of the Treasury. How the crisis has influenced it can easily be seen from the following figures (in million lire):

	June 30, 1928	June 30, 1929	June 30, 1930	April 30, 1931
Consols	71,604	71,449	71,410	71,368
Redeemable debts	13,224	13,175	13,021	13,003
Treasury current debts	1,618	2,510	3,671	5,113
Totals	86,446	87,134	88,102	89,484

What is the use, except the moral one, of maintaining an appropriation of 300 million lire for sinking fund purposes when the total debts are increasing? The sinking fund system was changed when, instead of the appropriation of the budget surplus, which according to our accounting methods is not always a cash surplus, the fund was allocated a share of the yield of the tobacco monopoly. From May 1, 1930, however, when tobacco prices were raised by an average of 23 per cent. so as to give the desired sinking fund surplus, consumption decreased by an average of 16 per

195. June 20, 1931, pp. 1327-1328. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

cent, so that no surplus was forthcoming. Together with similar experiences with spirits and sugar, this is a proof of the old truth that low rates are frequently more beneficial to the Treasury than high rates.

A campaign is being conducted at present in favour of a reduction of the wine tax, which is said to check consumption. More than five million hectolitres of the 1929 vintage are to-day still to be disposed of, together with 12 million hectolitres of the 1930 vintage. It is alleged that this is caused by the wine tax, levied at rates varying from 45 to 76 lire per hectolitre. Abolish it, it is urged, and the wine will be sold at an average price of 100 lire and bring 1,700 million lire to the needy wine growers. The difficulty is to find an alternative source of revenue. A 12 per cent. tax on the sale value of all textiles is suggested in certain quarters but it is strongly objected to by cotton and wool and silk manufacturers. Moreover, this tax was tried during the war and was abolished by the present Government in 1923, since it was dangerously damaging a principal branch of Italian industry. Another suggestion is the re-establishment of the flour tax, which was one of the relics of the old Italian States prior to unification and which was abolished in 1884. The existence of the flour tax was one of the chief reasons for the unpopularity of the Government which fell in 1876. From the fiscal point of view the flour tax is certainly better than the customs duty on foreign cereals; because the flour tax would hit the whole 7.2 million tons consumed, whereas the duty is paid only by the 2 million tons imported. If 600 lire per ton are needed as customs duty for obtaining a given result, 170 lire would suffice as flour tax. What is suggested, however, is a flour tax not as an alternative to the custom duty but as a complementary tax; in which case the price of the loaf would be increased, to the detriment of the yield of some other tax.

It is probable that we have reached the limit of taxation. Professor Mortara, in the last chapter of his "Prospettive Economiche" for 1931, which are truly becoming an indispensable handbook for the study of Italian and world economic conditions, makes a well-balanced estimate of taxation incidence in Italy. In current lire the total (state and local) tax yield was 9.2 billion lire in 1913, 14.9 in 1925-26, and 22.5 in 1930-31. If the figures are translated into lire of constant purchasing power, total taxation amounted to 12.3 billion lire in 1913-14, to 14.9 in 1925-26, and to 29.5 in 1930-31. Against a national dividend which is presumably not increased, this increase in taxation looks formidable indeed. Professor Mortara concludes that the moment is certainly not favourable to a reduction of taxation, but as, in 1926, Signor Mussolini checked the depreciation of the lira, when such an achievement seemed out of the question, it is si-

milarly imperative and possible for him to give the lead to the needed reduction of public expenditure.

Bourses are lifeless, with no encouraging features. Economic indices do not yet give any sign of the end of the crisis. State railways yielded in the first four months of the present year 405 million lire for passenger traffic, as against 468 in the corresponding months of 1930 and 714 million lire for goods traffic as against 927. Passengers carried in April were 7.6 millions against 9.3 millions in April, 1930. Goods maritime traffic is also decreasing. Passengers, however, increased; 355,300 were landed against 344,900 in April, 1930, and 353,600 sailed against 336,000 in April, 1930. This is important, as foreign visitors were always a most important credit item in Italy's international balance of payments.

The excess of imports over exports is also decreasing; it was 983.4 million lire in the first four months of 1931 as against 1,944.6 million lire in the corresponding period of 1930. Though the decrease is useful from the point of view of the present balance of payments, it is of mixed meaning for the future, as it may mean a reduction to the minimum of purchases of raw materials. The General Industrial Confederation has made a very elaborate analysis of the official statistics with interesting results. Taking as 100 the average for 1925 and studying variations of quantities, exclusive of prices, they find that imports of raw materials increased to 116.8 in 1929 and decreased in 1930 to 102.07. In February, 1931, they had further decreased to 100.98, against 116.92 in February, 1930. Total imports decreased from a maximum of 112.88 in 1928 to 103.70 in 1930 and to 90.24 in February, 1931, against 100.44 in February, 1930. Total exports have done better, for they have reacted from the maximum of 114.94 in 1929 to only 109.33 in 1930, and remain at 110.01 in February, 1931, against 110.54 in February, 1930. As to values, we sold in 1930 at 60.57 per cent. of the 1925 basis, and we bought at 63.14 per cent.; in February, 1931, we sold at 50.71 per cent. and we bought at 51.86 per cent. Thus we sold at prices comparatively lower than we were able to buy; but as we sold larger amounts, the slump in international prices made us the gainers at the end of the game.

Unemployment is, as usual at this season, diminishing; there were 670,352 unemployed at the end of April, against a maximum of 765,325 at the end of February. Last year the figures were 372,236 at the end of April, against a maximum of 466,231 at the end of January. How far the increase in emigration has contributed to the decrease of unemployment is difficult to say. Net emigration of working men had decreased continuously from 91,019 in 1925 to 55,438 in 1928 and to 46,731 in 1929. After

the Government decided in June, 1930, to resume the liberal granting of passports to would-be emigrants, net emigration increased at once, and reached for the whole of 1930 the total of 176,519. In the first four months of 1931 net emigrants (that is to say emigrants minus immigrants) were 41,002 as against 15,185 in the corresponding period of 1930. Most of them go to France and Switzerland; in April last 5,949 went to France, 5,974 to Switzerland, 1,830 to the United States (including 1,231 going there a second time), and 1,196 to the Argentine. How they can manage to find work in a world full of unemployed is a mystery, and a proof of the great resourcefulness and adaptability of these very hard-working men. In due time the increase in emigration is bound to have a beneficial effect on the emigrants' remittances. Perhaps, as after the 1887 crisis, the first signs of economic recovery will come from poor people.

196.

ITALY

LOW AGRICULTURAL PRICES – QUOTA FOR FOREIGN WHEAT –
FLOUR DUTY – AID FOR MINERAL INDUSTRY – TAX CHANGES

From our Correspondent

Turin, July 19

Public attention is at present focussed upon such sensational affairs as the Hoover Plan, the collapse of German credit and the Pope's encyclical. Internal economic problems, however, though somewhat in the background, are giving rise, as usual, to a whole crop of legislative interventions. The first sales of the new wheat brought very disappointing prices. As the price per ton of foreign dutiable wheat is about 400-500 lire, and the customs duty is 610 lire, the price of internal wheat should have been about from 1,000 to 1,100 lire. As was shown by Professor Mortara (*Prospettive Economiche*, 1931), the wheat duty is in the yearly average operative for only three-fourths of its amount, but for the months from July to October the excess of internal over foreign wheat prices is very much less, the duty

196. July 25, 1931, pp. 173-174. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

in 1930 being operative for only a fourth part of its amount. This year the Government had come to the rescue in two ways, first by raising the duty from 521 to 610 lire per ton; second by fixing a quota of 95 per cent. of internal wheat to be milled. The aim was clearly to create a monopoly of the internal market, at least for a certain period, to the benefit of national producers. The monopoly cannot be maintained for the whole year, as in the last four years the average production was 603 million tons and the average imports 207 million tons; but it was hoped that it would aid agriculturists in the most critical period of hurried sales, which always follows harvesting. Predictions were falsified by events, at least in the beginning. Millers were taken by surprise by the quota. The biggest of them, hoping for a rapid reversal of the new policy and worried by the necessity of milling soft or different grades instead of the well-known hard or soft foreign qualities, abstained from purchases. Prices went sharply down; in some places, such as Padova and Rovigo, down to 700 lire per ton. Strong words and sometimes blows were exchanged between middlemen and farmers; carabinieri had to be called in. In a Trentino village the local Fascist secretary obliged purchasers to refund the sellers the difference between the price paid and the "just" price. To give millers an interest in buying national wheat, the duty on foreign flour was increased as from July 8th by about 6 per cent. to 929 lire per ton.

The Sardinian mineral industry is also in a serious condition owing to the decline in prices. In the past year duties on spelter were increased; and in June last the duty on lead was also raised from 110 to 220 lire per ton on ingots, and from 275 to 405 for sheets, wires and tubes. As protection was not deemed sufficient to keep the industry going, a grant of 7,000,000 lire was made from the public exchequer for the period from May 1, 1931, to June 30, 1932, to lead and spelter mines companies, on condition that the prices of spelter and lead should not exceed £ 16 per British ton, and that the number of miners and other hands employed should not fall below that on April 16, 1931. Grants, within the limit of seven million lire, can also be made to mines of antimony and lignite. The Minister can exempt from the obligation of employing a fixed number of people should the price of lead or spelter fall below £ 10 per British ton, and in other cases of proven necessity. In this case the grant will be proportionately reduced. The big Monteponi and Montevecchio mining companies are bound to profit by such grants.

The difficulties of the wine industry have been taken into account by a decree of July 11, reducing the tax by 25 lire to from 23 to 50 lire per hectolitre, according to the size of the municipality into which the wine is in-

troduced. The reduction will cost the Exchequer 390 million lire. Further losses of 80 and 150 million lire will be occasioned by the reduction of the tax on cattle and of the local agricultural rates; with a total tax reduction of about 620 million lire. On the other hand: 1) The sales tax, which had been recently increased from 0.50 per cent. to 1.50 per cent., is further increased to 2.50 per cent. This expedient was deemed preferable to taxes on flour or textiles, on account of its more general character. Industry and trade observe that the tax will be particularly burdensome in times of economic crisis. The increase of yield is estimated at about 600 millions. 2) The municipalities are authorised to re-establish under the name of consumption taxes the old duties on wild game, fresh fish, sweets, chemical powders for mineral waters, furniture, perfumes, fine soaps, cheese, furs, up to 5 to 10 per cent. *ad valorem*. The yield is estimated at 150 million lire. 3) Road taxes are extended and increased, with a further yield of 25 millions. 4) In the municipalities of less than 25,000 inhabitants the family tax, a sort of graduated income tax, is reintroduced, with an expected yield of 18 millions. 5) In other towns the house occupiers' tax is modified and extended, the rate being fixed at from 5 to 9 per cent. of the rent paid, with an estimated yield of 600 millions. The result seems to be a shifting of taxation from the agricultural classes to the general consuming public and to the cities, with total burdens very heavily increasing.

Whether the hoped-for increase of yield will be realised only events can tell. In the eleven months from July, 1930, to May, 1931 (as against the corresponding period of the previous year), there was an increase in the sales tax yield from 392.2 to 832.9 million lire, in customs duties from 2,101.7 to 2,649.8 millions, and in the tobacco tax from 2,174.0 to 2,341.7 million lire. But the sales tax had been increased in the meantime from 0.50 to 1.50 per cent., the price of tobacco by 23 per cent., and the yield from the wheat duty had increased sharply owing to the bad 1930 harvest. Total ordinary revenue, however, increased only from 15,682.3 to 16,183.0 million lire, more than half of the above said particular increases being eaten up by decreases in other fields. It is to be feared that, pending the economic crisis, the same experience will be repeated again. Certainly, and fortunately, the Customs duty on wheat will yield less, as the present harvest promises to be vastly better than that of 1930.

197.

ITALY

STOCK EXCHANGE DECLINES – RESTRICTIONS ON BEAR OPERATIONS –
UNEMPLOYMENT – INDUSTRY – FOREIGN TRADE – REVENUE

From our Correspondent

Turin, August 18

From August 6th to 19th the Italian Stock Exchanges have been enjoying the regular holiday which has gradually developed out of the old mid-August Ferragosto holidays, the counterpart of the London Bank Holidays. All operators are devoutly hoping that the recess may have a good effect on the tone of the bourses, which was going from bad to worse. The Milan index for certain characteristic dates was as follows:

(December, 1925=100)

	Dec. 29, 1928	Jan. 3, 1930	June 28, 1930	Feb. 28, 1931	July 31, 1931
Banks	110.5	92.4	99.3	93.7	86.9
Navigation and transports	80.4	66.4	80.1	62.9	50.6
Textiles	42.6	19.0	24.6	18.5	23.7
Mines, iron and steel, and engineering .	97.0	60.8	72.3	66.3	52.2
Electricity	103.3	77.6	93.8	83.0	67.8
Real estate and agriculture	80.5	48	68.5	58.4	58.6
Food and miscellaneous	96.7	73.1	94.4	81.8	63.9
General index	88.3	66.4	79.1	69.6	62.0

A few of the thirty-five shares utilised in the index have gone down to a mere nominal fraction of their former price – Venice Cotton Mills (Cotonificio Veneziano) to 2.26 per cent.; Meridional Cotton Manufactures to 9.20 per cent.; Snia Viscosa to 8.27 per cent.; Officine Meccaniche to 1.38 per cent.; and Fondi Rustici to 3.37 per cent. Bonifiche Ferraresi have been dropped altogether from the list. In all these cases particular reasons can be given for the decline. The remainder have been brought down by

197. August 29, 1931, p. 393. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Long bourse recess. Dwindling quotations. Restrictions of bear operations. Unemployment decreased. Other indexes of industrial activity uncertain", dated "Turin, August 18, 1931", is kept in the Einaudi archives.

the complete absence of buyers. Even the spurt after the Hoover move on reparations was short-lived.

In so lifeless a market bears may have a great psychological influence in provoking sales by weak holders, who have lost hope of seeing a ray of sun after so many rainy days. It is probably to counteract the bears' attacks after the recess that a decree published in the official gazette of August 8th gives the Finance Minister new regulating powers in the field of bourse transactions. All sellers of futures can be obliged to deposit at the moment of order the securities sold or a cash cover to 25 per cent. The Minister can make analogous regulations for purchases of futures, and his regulations may cover all securities dealt in or only specified securities, and may relate to all bourses or only to those specifically named. As every purchaser had already the right of obliging the seller to deposit at once the securities sold for a future date, the new decree aims at generalising a rule which could hitherto be enforced only at the request of the interested party. It is hoped that these restrictions on uncovered sales will help to check the decline.

The best cure, however, would be an improvement in the industrial situation. Of that the omens are as yet not very sure. Unemployment was reduced from the peak of 765,325 at the end of February to 573,593 at the end of June, increasing again to 637,156 at the end of July. Other general indices of industrial activity are also doubtful. The electrical energy produced and imported decreased from 4,149.7 million kwh. in the first five months of 1930 to 3,902.9 in the corresponding period of 1931. Imports decreased from 9,545 million lire in the first semester of 1930 to 6,612.6 in the first semester of 1931. As exports decreased only from 6,535.4 to 5,112.5 million lire, the excess of imports decreased from 3,009.5 to 1,500.1 million lire. This is good for the present balance of payments, but probably bad for the future of industry. Imports of raw jute diminished in the first five months from 27,340 tons in 1930 to 19,433 tons in 1931; cotton from 109,791 to 83,561 tons; wool from 27,775 to 24,992 tons; broken pig iron, iron and steel from 444,828 to 236,080 tons; coal from 4,323,271 to 3,711,635 tons; mineral phosphates from 406,133 to 215,592 tons; and rubber from 6,807 to 4,428 tons. The average monthly goods carried on the Italian State Railways, which decreased from 5,028,000 tons in 1929 to 4,466,000 tons in 1930, decreased further from 4,440,000 tons in the first half of 1930 to 3,611,000 tons in the corresponding period of 1931. The number of passengers, which had already decreased from a monthly average of 9,740,905 in 1929 to 8,740,070 in 1930, decreased further from 8,308,655 in the first semester of 1930 to 6,910,676 in the same period of 1931.

Deposits in the Post Office Savings Bank increased in the first five months of 1931 by 697.6 million lire (from 13,047.2 to 13,744.8) and those in the ordinary savings banks by 415.7 million lire (from 17,229.2 to 17,644.9). Winding up of old companies and losses of capital so much exceeded the formation of new companies and increases of capital that the capital of joint stock companies decreased from 52,280,765,000 lire at December 31, 1930, to 50,823,703,000 lire at June 30, 1931. The sums cleared at the Clearing Houses, which had decreased from a monthly average of 108,128 million lire in 1926 to 55,370 millions in 1930, decreased further from 54,139 millions the first semester of 1930 to 53,960 millions in the corresponding period of 1931. Failures (ordinary and small), whose monthly average was 1,010 in 1929 and 1,133 in 1930, went up to 1,400 in the first six months of 1931.

Taxes are accounted for by the central accounting office of the Finance Department under 52 separate heads. Of these 16 increased in the financial year 1930-31 over the yield of 1929-30 and 36 suffered a decrease. The total increase was 458.8 million lire; but were it not for the increase in the yield of the wheat duty by 744.7 million lire and on that of the turnover or sales tax by 487.0 million lire, the result would have been far from satisfactory.

198.

ITALY

RECEPTION OF BRITISH NEWS – MONETARY SITUATION – REACTION ON INDUSTRY

From our Correspondent

Turin, September 23

The first repercussion of the suspension of the gold standard by Great Britain was in Italy one of bewilderment. The shock was keenly felt, especially in Milan, Turin and Genoa. Importers who had covered their future sterling requirements and exporters who had not already sold their sterling

198. October 3, 1931, pp. 615-616. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

bills, felt anxious about their prospective losses. The official quotation of the pound sterling was suspended and banks refused on Monday and Tuesday to quote prices across the counter. The bourses were not closed, however, and business went on as usual. Prices of securities, especially speculative ones, were marked down, but falls were not spectacular. Bourse editors observed in their notes that the volume of transactions had already in the course of a long-dated depression been so much reduced, and the prices were so low, that there was not much room for further reductions. Press comments were singularly sober. A few debated in an historical mood on the passing of the sterling myth and on the transference of the leadership of the world money market from the sterling to the dollar; others, like ex-minister Alberto De Stefani, spoke only of a provisional act of foresight and insisted on the fundamental sanity and strength of Great Britain, which are a guarantee that the pound will be restored to free convertibility into gold. Even in the modest headlines, newspapers reveal a unanimous tendency not to stress the importance of the event. Some even hint that, had the British Press and the British politicians not made such a fuss about the dangers surrounding sterling, foreigners would not have been seized with panic, and things would not have drifted to the present impasse.

As to repercussions on the Italian economic and monetary situation, there do not appear on the surface symptoms akin to those which bred havoc in London. The gold reserve of the Bank of Italy has increased between December, 1927 (first balance sheet after stabilisation) and August 10, 1931, from 4,547.1 to 5,372 million lire; the bill and securities gold exchange reserve has decreased from 7,558.8 to 3,495 million lire; the total gold reserves decreasing thus by 3,238.9 million lire. But the notes issued decreased also by 3,399.3 millions (from 17,992.2 to 14,592.9). The other items do not reveal any really dangerous tendencies. Frozen credits of the Bank of Italy toward the Institute of Liquidations, after having diminished from 1,433.8 million lire at December 31, 1927, to 626.2 millions at December 31, 1930, are again increasing, but the latest figure of 1,207.6 millions at August 1, 1931, is yet of manageable dimensions. Nor has Italy big foreign deposits, liable to be called in for an emergency. No figures are published; but there is quoted in banking circles the figure of 2,000 million lire as representing the amount of foreign deposits held at call or short notice in Italian banks; but against it there can be set a much higher figure, of from 6,000 to 9,000 millions of deposits or securities held by Italian residents in foreign countries. It is a widespread impression that the majority of Italian securities issued in New York or other markets are in the posses-

sion of Italians; so that they are not liable to be suddenly thrown on the market as if they were held by foreigners.

The apprehensions which are felt as a consequence of the British suspension are on the commercial and industrial side. Italy and England are direct competitors in some lines, such as textile goods, in the Levant, India and the Far East. In other places also the decline in English exports has been made good by Italian goods. The fall of sterling will no doubt give a temporary fillip to British exports and perhaps damage Italian trade. Italy, like many other countries, is suffering from some of the ills under which England is labouring. Professor Mortara, in his well-known "Prospettive Economiche" for 1931, has calculated that the increase in State and local taxation, had, in present lire, increased in 1930-31 by 145 per cent. over 1913-14, and by 51 per cent. over 1925-26. The increase in terms of lire of constant-purchasing power was, respectively, 140 and 98 per cent. This is a crushing burden; and equally high is the burden of fixed interest of debts on industry and agriculture. As the (Bachi) wholesale prices index number decreased between 1927 and June, 1931, by 33.8 per cent. and the national total cost of living index number (Central Statistical Institute) between June 1, 1927, and June 1, 1931, by only 17.3 per cent., the comparatively low purchasing power of wages is an obstacle to complete readjustments between wholesale prices and wages. It is feared that if the British suspension were followed by other weak countries, the menace to our exporting industries and to our balance of trade, much improved in later months, may become very strong and react on the Bank of Italy gold reserves.

199.

ITALY

STABILITY OF THE LIRA — EMERGENCY DECREES — TARIFF

From our Correspondent

Turin, October 5

The first two weeks following the suspension of the gold standard in England may be described as a successful fight on the part of the Italian Government, the Treasury and the banks to save the convertibility of

199. October 10, 1931, pp. 659-660. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

the lira from the world monetary turmoil. On the evening of September 23rd an official *communiqué* was issued from the Government and the Bank of Italy stating that no change was to be made in the stabilisation rate fixed by the decree of December 21, 1927. This *communiqué*, which was repeated with great emphasis on September 29th, was deemed necessary in view of the popular notion that the lira was fixed at the rate of 92.46 to the pound (the so-called *quota novanta*). It was officially stated that the true rate of stabilisation was 7.919 grammes of fine gold for every 100 lire, irrespective of the vagaries of sterling, the mark, or even the dollar. In the first scare, when gold standards tumbled down one after another, it appeared to some foreign observers that the lira was also doomed, as it was quoted at a discount of 5 to 6 per cent. against the dollar, 8 to 9 per cent. against the French franc, and even more than 10 per cent. against the Swiss franc. This situation, however, was short lived, for by the end of last week the exchanges had settled down just a little above the gold point, and a few bears in Paris and other foreign countries were obliged to search for cover with no lire available on the market.

The technical situation, of which the Bank of Italy quickly availed itself, was that Italy had no current foreign debts worth noting. Other lines of defence were utilised. On September 28th the Bank rate was increased from 5½ to 7 per cent. On that day, also the Finance Minister issued a decree to the effect that no forward sale of any security could be received on the Bourses if unaccompanied by the deposit of the security sold or of 25 per cent. of the cash, and no forward purchase, if unaccompanied by a deposit of 25 per cent. of the cash. Speculative transactions were thus killed outright. On September 29th the Finance Minister was authorised to regulate transactions in foreign exchanges, and on the same day the Fascist Credit Confederation circularised rules obliging all banks to send to the Bank of Italy a statement of their foreign exchange holdings as well as those of their foreign associates, and to make inquiries as to the future exchange needs of their clients, limiting credits to those who are reputed to possess foreign balances or to be receiving foreign bills in payment of exports. No bank can buy on its own or its clients' account foreign or Italian securities issued in foreign centres. Foreign exchanges cannot be negotiated for future dates, nor be sold to customers who cannot justify their request on commercial or other admissible grounds.

On September 25th a new general tariff of 15 per cent. *ad valorem* was imposed on all goods, previously dutiable or free, entering Italy. The duty on coal is 10 per cent., and different rates have been fixed for oil and gasoline, while cereals, the duty on which had only recently been increased, and

such goods as may be entitled to special treatment by virtue of existing commercial agreements, are excepted. The objective of the new tariff is primarily a financial one, for the Exchequer hopes to receive from it a net yield of some 800 million lire yearly. But it may also be regarded as the first reaction to the suspension of the gold standard in England and other countries. Whether the duty will counteract possible "dumping" as a result of the depreciation of the pound, or whether it will initiate retaliation by other countries, remains to be seen. In the meantime, however, the General Confederation of Industry evidently has some misgivings, for on October 3rd it passed a motion, worded by Signor Olivetti, urging, in very prudent language, the adaptation of the tariff to the necessity of maintaining international trade.

200.

ITALY

GOLD RESERVES – UNEMPLOYMENT – BUDGET FIGURES

From our Correspondent

Turin, October 11

"Happy the peoples who have no history" – this may be the motto of the week. There is no development in the situation of the lira. The gold reserve of the Bank of Italy increased from 5,373 million lire at the end of August to 5,445 millions at the end of September, while the gold exchange reserves decreased, between the same dates, from 3,465 to 2,938 millions. The total reserves thus decreased from 8,838 to 8,383 million lire, a decrease of 455 millions. This is the price paid for the defence of the lira, not a formidable loss during such a critical period, and one partly counter-balanced by a decrease from 14,645 to 14,474 million lire in the total notes circulation.

Apparently the first shock of the British gold suspension has spent its force here, but the newspapers give vent to some anxiety about the next one, possibly coming from a German collapse. It may be, however, that Ita-

200. October 17, 1931, p. 712. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

lian economy is too secluded, too small-agriculturist, to be much concerned with international monetary portents. Even the higher figures of unemployment (about 650,000 at the beginning of the autumn, against 400,000 last year) do not arouse as much concern as they would in a purely industrial country, because the unemployed here receive aid from relatives on the land, thus rendering sufficient the present unemployment subsidy of 7.75 lire per day, payable for a maximum of 120 days.

The State Budget has not been obliged as yet to subsidise the Unemployment Fund, save indirectly by way of public works. Extraordinary appropriations to the Public Works Department have increased by 655.3 million lire to 1,316.5 millions since the beginning of the financial year; and this has been officially announced to be 520.9 million lire at the end of the second (August) month of the financial year. Should the deficit go on increasing at this rate it may well become heavy at the end of the year.

It should, however, always be remembered that these Budget deficits are paper deficits. It may be that in some future time the Exchequer will be obliged to pay, on account of the July-August, 1921, Budget, 520.9 millions more than the taxes received. In the meantime, so far as hard cash goes, the Exchequer has in these same two months received 2,631 millions and disbursed 2,172.7 million lire, so that the cash in the till has been increased by 458.3 millions. In fact, as Signor Mazzucchelli has pointed out in his monthly review in the *Rivista Bancaria*, the cash position of the Italian Exchequer is strong. Things may change, but for the moment there is plenty of cash funds to bear the brunt of the present monetary turmoil.

201.

ITALY

GOLD – FOREIGN TRADE – UNEMPLOYMENT

From our Correspondent

Turin, October 19

Great prominence is given in the newspapers to the fact that 80 barrels of gold were landed on Friday at Genoa for delivery at the Bank of Italy,

201. October 24, 1931, p. 759. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

and that the proportion of gold reserves (exclusive of gold bills), which stood at 25.2 per cent. on December 31, 1927, just after the stabilisation decree, has increased continuously thereafter to the present level of 37.3 per cent. As the legal cover for notes in gold and gold bills is 40 per cent., we are, so the comments run, very near to having reached the legal requirements in gold alone. This would appear to mean that the final policy of the Bank of Italy would be to abandon the gold exchange standard in favour of a return to the full gold standard system. This should perhaps be regarded as a final stage, because at present foreign exchanges are strictly controlled and only "cash" foreign bills are sold. Forward coverings are thus barred, with no small discomfort to industry and trade.

Figures published this week of September foreign trade point to a favourable balance, imports being restricted to 839.2 million lire, against 1,272.6 millions in the corresponding month of last year, while exports decreased only from 901.5 millions in 1930 to 871 millions in 1931. This favourable balance of 31.8 million lire may be exceptional, but it is a symptom of a tendency. In the first nine months imports decreased from 13,066.2 million lire in 1930 to 9,106.5 millions in 1931, while exports decreased only from 9,048.7 millions to 7,405.4 millions, so that the import excess decreased from 4,022.5 millions to 1,701.1 millions. What is the true significance of this sharp contraction of foreign trade, and what will be its future consequences, is not so easy to see. Reductions from 31,451 tons in the first half of 1930 to 22,714 tons in the same period of 1931 in the imports of raw jute, from 128,140 to 95,009 tons of raw cotton, from 31,339 to 26,892 tons of wool, from 521,062 to 284,698 tons of broken iron, from 92,565 to 48,979 tons of pig iron, from 61,376 to 34,217 tons of iron and steel, from 5,375,899 to 4,605,593 tons of coal, from 95,012 to 87,951 tons of cellulose, not fully compensated by some increases such as from 329,555 to 433,694 tons of mineral oils derivatives, or from 16,816 to 20,050 tons of hides, may well cause some misgivings as to the activity of Italian industry. But from a monetary point of view they point to an easy situation; so much the more as it is prognosticated that the balance of international payments, including invisible items, will close with a favourable surplus. Pilgrimages, most famous of all that of St. Anthony of Padua, which had been suspended when Church and State were at loggerheads about the Catholic Action, were restarted once peace was restored, and they are bringing money into Italy.

That industrial activity is on the down-grade is indicated by the unemployment figures. In 1930 unemployed were 394,630 at the end of September, reaching 642,169 only at the end of December, and rising to a max-

imum of 765,325 at the end of February, 1931. After a short-lived decrease to a minimum of 573,593 at the end of June, we are again up with a figure of 757,764 at the end of September. As the subsidy period is generally 90 (in some cases 120) days, the number of unemployed on the subsidy list is only 234,000. To provide for the others a big drive has to be made on public charity, with large subscriptions coming from employers, public bodies, employees and workers on the pay roll.

The limitation of the Bourses to cash transactions has reduced business to a dwindling fraction. In the first week of October transactions in securities reached only 3.5 million lire daily, which is a decrease of 80.5 per cent. on the same week of the past year, and of 96 per cent. on the maximum turnover reached in the third week of May, 1928. Quotations are lifeless but quiet, which is, perhaps, the utmost we can expect.

202.

ITALY

PRIME MINISTER'S SPEECHES – MAINTENANCE OF GOLD STANDARD – SOCIAL POLICY – STOCK EXCHANGES

From our Correspondent

Turin, November 2

The speeches of the Prime Minister at the gatherings of Fascist representative bodies at Naples in commemoration of the congress held in the same city a few days before the march on Rome, let fall a few hints on economic policy. He laid great emphasis on the decision of the Government to maintain the lira at its present level of stabilisation, and the last balance sheet of the Bank of Italy furnishes a timely commentary on it. From September 20th to October 20th gold bills and securities reserves declined 652.2 millions from 3,326.5 to 2,674.3 million lire. This reduction is not disproportionate to the importance of the cause, and the fact that during the same interval discounts and advances increased by 642 millions is clear evidence that the market was in need of accommodation for payments for

202. November 7, 1931, pp. 861-862. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

imports or for reimbursement of temporary foreign advances. The Bank of Italy was able, notwithstanding these heavy calls of trade, to decrease in the meantime its note circulation by 319.7 millions and to increase the gold bullion reserves by 77.9 millions. Comments in the newspapers insist on the increase of this gold bullion reserve, whose proportion to the notes issued has risen from 37.26 to 38.65 per cent. during the same period, which seems to indicate a general tendency to leave the gold exchange system in favour of the gold standard proper.

Signor Mussolini also made a significant reference to social policy. Fascism, he said, must go towards the people, maintaining itself equally remote from Bolshevism and from Liberalism. "We have nothing to fear from foreign plutocracies... If obstacles should be laid in the way of this direct communion of the regime with the people we shall break them down". What is the exact meaning of these utterances only time will show. Perhaps the first result was the decision of the Central Corporative Committee on October 30th that no further general wage reductions should be enforced. Italy set a year ago the example of a 12 per cent. reduction of wages and salaries; further inroads in the workers' budgets are neither necessary nor desirable. Only in special cases can reductions be tolerated, when it can be proved that they are not required to bolster up weak concerns, or to assure continuity of work, and if other elements of the cost of production are to be simultaneously reduced. As to agricultural wages, the committee recommended also the general adoption of the system of partnership, which establishes labourers on the land. It may be observed on this point that Italy is withstanding the shock of the world crisis better than other countries, mainly owing to the great number of landowners. Over five million men till their own land; several other millions are already on a partnership system (*mezzadria*, etc.). This system, which Sismondi exalted in 1801 against Arthur Young, is still to-day the backbone of our agricultural life. Big landowners, and farmers on a large scale, especially in Lombardy, Emilia and the South of Italy, are having very hard times. Small landowners and partners are not affluent, and they are obliged to stop saving for the time being; but they are able to carry on until times improve. In the rice-fields of Novara and Vercelli, a district of large landowners, the crisis is playing special havoc with prices of rice as low as 450 lire per ton against a cost of production very cautiously estimated at 700 lire. A National Rice Institute was recently created to fix prices and conditions of sale. Producers and traders are free to negotiate; but the rice cannot be delivered unless the contract is registered by the Institute. Prices had already risen on the announcement that something was in sight; so that the Insti-

tute was able to fix the price at 700 lire. Italian rice is of higher quality than Asiatic rice, and is mainly exported for seed use. It is uncertain whether this attempt to regulate rice prices will be more successful than other attempts for wheat, coffee, rubber and other commodities. Much will depend on the prudence of the Board.

Suppression of forward dealings has brought the bourses to a standstill, and the usual closure from October 31st to November 4th will not be resented by operators. The following are quotations for a few of the more active shares:

	October 31, 1930	March 28, 1931	August 28, 1931	October 30, 1931
Bank of Italy	1,746	1,696	1,541	1,365
Banca Commerciale	1,415	1,302	1,301	1,301
Meridional Railways	1,004	890	771	655
Navigazione Generale	499	374	263	238
Chatillon	253	239	237	235
Montecatini	206	202	149	124
Fiat	255	238	186	129
Edison	694	678	536	456
Risanamento	1,069	1,051	857	790
Eridania	389	370	258	234
Fondi rustici	93	32	10	10

With the exception of the Fondi Rustici, these shares are specimens of the best type of concern enjoying a good reputation. The slump has not been spectacular when compared with American movements, but, though gradual, it has been almost continuous. The worst feature is the quietness of markets, which makes small offers fall on the void.

203.

ITALY

BANKING CHANGES – A NEW BODY

From our Correspondent

Turin, November 9

The great event of the week was the Banca Commerciale Italiana arrangement, which was officially announced on Tuesday night. Italian bank-

203. November 14, 1931, pp. 910-911. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

ing traditions partake at the same time of the French and German systems. As in France, the bank of issue is not only the bakers' bank, but deals directly with the public, and is, therefore, a direct competitor of ordinary banks. This is largely explained by the fact that the banks of issue were founded in the 'fifties, when ordinary banking was very little developed. When, afterwards, commercial banks arose they thus found themselves deprived of a part of the ordinary discount business, in which their deposits would have found their most obvious outlet. On the other hand, there do not exist, except for loans on land and houses, special organisations for making permanent advances to industry. Great industries, such as textiles, iron and steel, navigation and electricity, could not be created had they not found in the banks a permanent aid. Credit to industry is, according to the German model, fatally tied up for a more or less long period of time. In the past, banks have come to grief because they have overstepped the limits of prudence in apportioning deposits between short discounts and advances and long investments. Sometimes these limits were exceeded because the bank was in the power of the industries which were its customers. The most famous instance was the Banca Italiana di Sconto, which failed in 1921 because it became the prey of the Ansaldo group.

In 1918 an attempt was made on the part of certain industrial groups to get control of the Banca Commerciale and of the Credito Italiano; and the struggle between the Perrone-Ansaldo group and a group of friends of the B.C.I. (the Gruppo Marsaglia) ended in the victory of the latter. In March, 1920, the assault on the B.C.I. was repeated on a bigger scale. The Perrone-Ansaldo group, in the endeavour to get hold of a majority of the capital shares of the B.C.I., pushed the price of the shares in a few days from 1,255 to 2,450 lire. For the second time the attempt failed. Then the "Consorzio Mobiliare Finanziario" was created, which bought all shares sold by the discomfited Perrone-Ansaldo group and subsequently worked in alliance with a financial syndicate of supporters and large shareholders of the B.C.I., so as to secure the bank against future attempts by industrial and commercial customers to capture the bank and its deposits. During the period from 1920 to 1931 this syndicate acquired, so it appears, a large amount of B.C.I. shares.

The present arrangement aims, firstly, at consolidating this long-drawn-out development. The "Consorzio Mobiliare Finanziario" is to increase its capital from 210 to 630 million lire; the fresh capital, the subscription of which is already guaranteed from sources outside the bank, being devoted to buying the "syndicate" B.C.I. shares. Thus, the majority of the capital shares of the B.C.I. will become the definite property of the

Consorzio; and the shareholders of the Consorzio (directors of the bank, financiers, stockbrokers and other supporters of the B.C.I.) will constitute in their turn a syndicate which shall keep in safe hands the shares of the Consorzio and guarantee the B.C.I. against any possible inroad. In 1930 a similar arrangement was arrived at for the Credito Italiano.

Now comes the second part of the arrangement. War and inflation influenced the B.C.I., as all other banks. Probably the frozen credits and investments might have been disposed of if the stabilisation of the lira at a level about 25 per cent. lower than the average level current from 1921 to 1926 and the subsequent deflation policy of the Bank of Italy – the notes issued were reduced from 17,992.2 at the end of 1927 to 14,441 at the end of October, 1931 – had not made customers of the B.C.I. desirous of further aid. The world crisis, coming on the top of the deflation crisis, made it well-nigh impossible to float industrial shares on the internal markets and closed the American market to issues of debentures. It is to the credit of the B.C.I. managers that they were able to avoid increasing their discounts and advances during these trying years. Discounts were 4,149.5 million lire at the end of 1924, as against 4,075.8 at June 30, 1931, and loans against collateral were 688.5 and 683.8 million respectively. Investments and “partnerships” rose, however, during the same period from 571.9 to 1,382.7 million, and sums due by correspondents from 1,670.8 to 3,268.2 million lire. It is no wonder that in these assets there should be some measure of frozen investments. Under an energetic guidance these assets may in the end prove to be good; but it will take some years of organisation and abstinence from dividends to come through the ordeal.

Provision has to be made in the meantime for frozen credits and assets at present unsaleable. The amount of these non-banking assets can only be guessed. On the basis of the difference between the present and the 1924 figures of the above-quoted items, we may reach a figure of roughly 2,000 million lire, mainly holdings in and debts by iron and steel, chemical, naval and shipping industries. Whatever the total sum, the entire block will be sold to a new body, called the Società Finanziaria Italiana, with a share capital of 300 million lire. The sale will be made at a price involving no loss for the B.C.I. Shareholders of the new Società are to bear the whole risk of the operation. It is hoped that no loss will ultimately be incurred, inasmuch as the new body will have plenty of time to liquidate. Of course, the new Società Finanziaria will not be able to pay for the whole of the frozen assets purchased, which amount to some 2,000 millions, out of its own 300 millions capital. A new semi-public body, on the pattern of the existent Credit Institutes for Public Utilities and Public Works, or the Shipping Credit In-

stitute, is to be created, which will issue debentures on a large scale. The arrangement thus aims at transforming banking assets not quickly disposed of to a public which is not to-day in the mood for purchasing large amounts of industrial shares into debentures issued by a semi-public body, which should be bought more easily by the saving public. Everybody recognises the difficulty of selling debentures directly to a saving public, which in Italy, as in other countries, is very shy of "new" securities, albeit buying voraciously "old" securities like Treasury bonds, railway debentures, mortgage, land and houses bonds, etc. The new debentures now under consideration, as those of other semipublic credit institutes, will find an outlet in savings banks and other superannuation and pension funds, which have a regular source of revenue from new savings and premiums, and can easily, by disposing of old securities, absorb large quantities of them.

The general conclusions which may be drawn from these far-reaching events are manifold. In the first place, no recourse will be had to the printing of notes, and the stability of the lira will not be impaired. Secondly, the Banca Commerciale will recover its full freedom of movement and, freed from the incumbrances of the past, reassert its hardly and ably won supremacy in the field of commercial banking. Thirdly, these recent events make imperative the study of a re-arrangement of the various inter-related banking agencies. They consist at present of 1) several thousand small and medium-sized private, popular, savings and rural banks with a limited field of action. A country where agriculturists and small industrialists and traders number millions cannot well do without these small banks, provided they are well managed. A supervision such as that exercised by the Bank of Italy is all that is needed. 2) A small group of commercial banks, at the head of which are the Banca Commerciale Italiana and the Credito Italiano. 3) A small group of powerful semi-public banks and savings banks, such as the Bank of Naples, the Bank of Sicily, the Lombard Savings Bank, the Turin Savings Bank, etc. 4) A few public institutions for the granting of credit to public utilities, public works, naval concerns, including the new Institute for Industries. 5) The Institute of Liquidation, a creation of the Bank of Italy, whose business is the winding up of 1,500 millions of old and new frozen assets from 1921 to 1930. 6) A few investment trusts, the outstanding instance of which is the Meridional Railways Company. 7) A big State bank, the Cassa Depositi e Prestiti, which centralises the deposits, about 14,000 million lire, of the postal savings banks. 8) The Bank of Italy.

Between these various banking types some sort of division of labour already exists. The short commercial credit in the usual English sense should

be the appanage of groups 1 and 2; the long-term credit to industries, trade and agriculture is in principle the privilege of groups 3, 4 and 5, which also, together with the Cassa Depositi e Prestiti, finance public bodies. If these lines of division were more strictly observed, if new investment trusts, run independently of the banks, were created, and if, finally, the Bank of Italy, renouncing its old ordinary banking functions, were to remain only a central bankers' bank, our banking system would work very well. The Banca Commerciale arrangements, as well as those for the Credito Italiano last year, make for progress on these lines, but such a development cannot be completed if a market is not created for fixed-interest bonds and debentures. At present, such a market exists only for State securities, land and houses mortgage bonds, some old railways and local public bonds. The industrial bond market is practically non-existent, and industrial bonds are perforce kept in the coffers of some of the above-mentioned banking groups (2 to 6, with some occasional transfer from group 2 to the others). Of course, such a development cannot be perfected at a time of crisis, but a cautious beginning could be made, taking advantage of the keen public demand for fixed-interest, well-secured bonds. The Lombard Savings Bank mortgage bonds are negotiated, even in these days of dear money, at a yield of about 5 per cent., and other similar industrial mortgage bonds could be equally good sellers, if only purchasers were sure of the possibility of re-selling them in case of necessity.

204.

ITALY

STOCK EXCHANGE — SHIPPING COMBINE — COUNCIL OF CORPORATIONS —
INDUSTRY — MONEY

From our Correspondent

Turin, November 23

The hopes which were entertained in some financial circles that the Banca Commerciale Italiana deal might mean support to the Bourses were soon disappointed, as the following figures show:

204. December 5, 1931, pp. 1070-1071. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

	Oct. 31, 1930	Nov. 7, 1931	Nov. 14, 1931	Nov. 21, 1931
Bank of Italy	1,746	1,364	1,421	1,481
Banca Commerciale	1,415	1,300	1,307	1,301
Meridional Railways	1,004	630	688	627
Navigazione Generale	499	237	265	650
Chatillon	253	153	257	263
Montecatini	206	114	131	122
Fiat	255	128	150	136
Edison	693	416	475	452
Risanamento	1,069	764	806	762
Eridania	389	242	255	245
Fondi Rustici	93	10	11	11

After a short-lived spurt, prices have lost ground in the past week; some sellers were caught short, and were made to pay the penalty of their daring; a few Chatillon shares brought as much as 400. The abolition of the compulsory payment of 25 per cent. cash on speculative transactions (still to be paid on short sales) did not succeed in bringing to life a dead market. Forced liquidations of securities by weak holders is partly prompted by a regulation forbidding savings banks from making advances on collateral other than State or public securities. Savings banks will be able, with the sums thus realised, to buy debentures of the new institute for industrial credit, thereby providing it with the means of absorbing the floating mass of variable dividend shares. The amount of this floating mass is very difficult indeed to estimate. Probably out of 50 billion lire of share capital of the Italian joint-stock companies about 35 are the capital of private companies and never come on the market. Of the other 15 billions, the greatest part is in the coffers of banks as investments or collateral. The creation of the new institute – of which Signor Tumedei, a prominent member of the Budget Committee of the House of Deputies, was appointed vice-president, means that from 3 to 5 millions of these shares will be transferred to it from the banks. The investing public, which since 1925 has shown an invincible distaste for shares, will be persuaded to buy, in their stead, fixed-interest debentures.

The crisis has induced the biggest shipping concerns to combine into a new company, called "Italia", with a capital of 740 million lire, which, after the New Year, will run the fleets of the Navigazione Italiana and of the Lloyd Sabauda. Each of these two will contribute 330 million lire, the rest of the capital being allocated to the Banca Commerciale group. The new company will control the Cosulich Line of Trieste, which, in its turn, will control the Lloyd Triestino, and, through it, the Sitmar and the Italiana di Servizi Marittimi. The Italia Company is authorised to issue 450 million lire

of debentures, including 300 already extant and sold to the Istituto di Credito Navale, a semi-public body, which does for shipping concerns what the new Istituto Mobiliare Italiano will do for industries in general. As public works and public utilities are already financed by similar institutes, it looks as though the whole of Italian industry is gradually coming under the control of public institutes; that is to say, of the State, which will have its say in the choosing of directors and in the management of the companies. The tendency, however, should not be exaggerated. At the utmost, the direct or indirect public control of private industry will be limited to 15 out of 50 billions; there is a whole host of industrial and commercial concerns which are genuinely private, wholly outside the joint-stock companies' world, and in agriculture the joint-stock system has certainly not been a success.

More interesting from the point of view of the speculations as to present economic tendencies in Italy were the discussions, closed on November 13th, at the National Council of Corporations, the supreme consultative and partly legislative body of the corporative state. As Signor Bottai, Minister for Corporations, pointed out, the discussion marked the birth of a new sort of struggle between economic categories, which is taking the place of the old class warfare. It was a very guarded struggle between people promptly made to bow before Signor Mussolini's authority; but agriculture unmistakably set its face against industry and commerce. The subject was tariffs, a subject to which the imposition of new British duties is likely to add fire. No free traders' voices were heard; all university professors, with one solitary exception, preferring to serve as unbiassed experts. Strange to observe, agriculturists, who in past times were, except for wheat, free traders, went solidly in favour of protection, advocating a most extreme form of it, the so-called "balanced exports" system, a mercantilist revival in modern garb. Imports, they argued, should be subject to the condition that the importing country shall buy a corresponding amount of Italian goods. How the system could work; how, in a world of inter-dependent nations, separate balances could be struck in groups of isolated two nations, is difficult indeed to imagine. Agriculturists aiming at the exclusion of cereals and meat coming from countries like Argentina, United States, Yugoslavia, etc., whose purchases in Italy are small, hope to restrict in this way imports which to them are a nuisance. Industrialists, whose exports go to countries which could not possibly sell large quantities of goods to Italy, were greatly concerned at the prospect; and while, in the years immediately after the war, they were advocates of an inter-dependent double tariff system and bitter critics of the commercial treaty system, they now

come forward as strenuous defenders of the most-favoured-nation clause. A motion was finally approved which sought to conciliate both tendencies, and recommended the appointment of a special reporting committee.

Economic indices are no better. In the first ten months of 1931 imports totalled 8,894 million lire, against 14,432 in the same period of 1930, and exports 8,236, against 10,109. The excess of imports over exports thus decreased from 4,328 million lire in 1930 to 1,658 in 1931; which is very good for the balance of payments, but not so good from the industrial point of view. Production of electricity decreased from 7,657.7 kw.h. in the first nine months of 1930 to 7,313.4 millions in the corresponding period of 1931. In the first ten months iron and steel production decreased respectively from 448,715 and 1,523,997 tons in 1930 to 425,812 and 1,229,982 tons in 1931. Cement and paper output also decreased. The most significant and almost solitary increase was in artificial silk from 22.6 million kg. to 25.5 millions. Goods carried on State railways decreased from 45.9 million tons in 1930 (ten months) to 37.6 in 1931, while goods shipped to and from Italian ports decreased from 30.1 to 27.4 million tons. Owing to the general decrease of industrial activity, unemployment is increasing: - 799,744 (of which 226,000 were in receipt of benefit) at October 31th, against 446,496 at the same date in 1930. The October figure is a record for many years past. Even in the category of public works and building the figure is up, at 229,592, against 110,305 at the same date in 1930. This means that probably many public works which the State and other public bodies began for the sake of increasing employment, are being delayed for lack of funds.

The deficit in the State Budget during the first four months of the current financial year (July to October) is 1,099 millions, while the Treasury is in a very strong cash position with 2,574 million lire at October 31th, of which 2,309 were held in deposit at the Bank of Italy. This, in turn, is a consequence of our strong monetary policy. The note issue is not being allowed to increase, and to this end the Treasury are keeping a big deposit at the bank. Only by high taxation and postponement of public expenditures not absolutely urgent is it possible to keep 2,309 million lire of the Exchequer funds at the central bank, thus enabling it to face withdrawals of gold exchange bills reserve, keep internal discount and advances to a level corresponding to the needs of ordinary banks, and at the same time keep down the note issue at a level between 14 and 14.5 billion lire. Albeit achieved through great sacrifice, this stern monetary policy has been hitherto an unmistakable success.

205.

ITALY

ISTITUTO MOBILIARE – BANK OF ITALY – TRADE

From our Correspondent

Turin, December 14

On December 5th the first meeting took place of the promoters of the new Istituto Mobiliare Italiano, all of them representatives of public departments, public bodies and savings banks. Subscriptions to capital amounted to 550 million lire, instead of the statutory 500 millions. Directors will not receive fees for their work, and will not contract any personal liability in consequence of their administration. They will only be responsible for the execution of their mandate, which probably means that directors, being mostly public servants or nominees of public bodies, will be responsible for the faithful carrying out of orders of their constituent bodies. At the subsequent first meeting of the board of directors, Signor Mussolini pointed out that the aim of the Institute is not the salvage of worthless organisations, but aid to sound economic firms which have been shaken by the crisis. No catastrophic revolution in the economic structure of Italian companies is contemplated. Senator Mayer, the chairman, enlarged on this topic, insisting that nobody aimed at introducing, under the cloak of the Institute, socialisation of industry. The Institute will not accept responsibility for transactions or mistakes prior to its birth, and is to maintain absolute independence of private interests.

These statements were aimed clearly at reassuring public opinion against misgivings about excessive State intervention in business life and the possibility of the Institute's taking excessive risks in its long-term operations. The Banca Commerciale seems thus to have been only an incident in promoting the creation of a body whose scope is much larger. From a passing hint of Senator Mayer it may be supposed that the State will give its guarantee to all debentures issued by the Institute. It would have been difficult, indeed, to issue successfully two sorts of debentures, as the non-guaranteed series would have been deemed by the public as of inferior

205. December 26, 1931, p. 1232. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

standing and not so desirable as the guaranteed. Senator Mayer hopes at the same time that the Institute will never be obliged to call upon the State to make good its guarantee.

The changes in the balance sheet items of the Bank of Italy after the suspension of the gold standard in England are important, but limited to gold reserve and discounts and advances. The appreciable increase between September 20th and November 30th of the gold reserve by 218.3 million lire has been offset by the diminution of the foreign bills and securities reserve by about one milliard lire. The resulting decrease in the total reserve is 746.7 million lire, not an excessive price to pay for the maintenance of the stability of the lira. Speculations are keen as to the loss sustained by the Bank of Italy on account of sterling reserves held on September 20th and as to the amount of sterling bills sold in the meantime but the Bank is keeping its own counsel.

The counterpart of the decrease in the gold reserve is not to be sought in a decrease of current liabilities, as the total of notes issued, plus State and private deposits, including all categories of State current accounts, is unchanged. The proceeds from gold reserve sales were used in the internal market, increasing discounts and advances by 892.4 million lire. As, however, during the past year, between the same dates, gold reserves also decreased by 502.5 and discounts and advances increased by 607 million lire, it may be that the increase of internal discounts and the reduction of foreign assets are due to ordinary seasonal influences. It looks as though the circulation had reached bottom, and the situation requires most careful handling of credit policy by the Central Bank, especially as the ordinary banks seem to be more dependent on the Bank of Italy than they used to be. If the note issues are to be kept at the present level the influence of the Central Bank should therefore be exercised in favour of credit restriction. The task is not at present very difficult, as the financial requirements of the market are not heavy.

The wheat quota system established by a decree of June 30, 1931, providing that wheat flour should contain only 5 per cent. of foreign wheat, raised the internal wheat price, which rose from 750 to about 1,000 lire per ton. A new decree of October 22nd therefore increased the permitted quota of foreign wheat from 5 to 25 per cent. The Italian Press is making no fuss about the new British Customs duties on imports. According to Italian statistics imports from Great Britain were 1,821.2 million lire in 1927, 1,777.2 in 1928, 2,089.6 in 1929, and 1,673.3 in 1930; exports to Great Britain 1,527.6 in 1927, 1,399.1 in 1928, 1,459.6 in 1929, and 1,185.4 in 1930. For the first seven months of 1931 imports were 761.7 million lire

and exports 725.3 million lire. The most important item hit by the new British duties is leather gloves, of which 56 million lire worth were exported to Great Britain for the first eight months of the year.

Nobody suggests that contraction of foreign trade is good; but some consolation is drawn from the fact that imports decreased in the first ten months from 14.9 in 1930 to 9.9 billion lire in 1931, or 31 per cent.; while exports decreased only from 10.1 to 8.2 billion lire, or 18 per cent. As the average price of exported goods was reduced from 19.7 per cent., it appears that we were able to sell only a slightly increased quantity. The trade deficit decreased, therefore, from 5.5 billion lire in the first ten months of 1929 to 4.3 in the corresponding period of 1930 and 1.7 in 1931. As the invisible exports, however, were certainly not entirely wiped out, it appears as though the international current payments account will balance in 1931. If, therefore, the gold reserves are declining – the decrease in total reserves was from 9,624.3 million lire at December 31, 1930, to 7,987.5 at November 30, 1931 – the causes are to be sought elsewhere. That exporters are depositing in foreign banks part of the sums due to them is improbable, as their need of funds is great and their unfortunate experience with sterling assets has made everybody shy of foreign investments. A few currents of capital export toward France and Switzerland persist; but they are subterranean and very slight, as foreign exchange regulations are strict and strictly enforced. Exchange is sold only on presentation of invoices and of customers' or other documents stating that the goods to be paid for have been already received. The most likely explanation is that foreign deposits have been recalled, forcing the Central Bank to sell exchange against discount of internal papers.

206.

ITALY

REVENUE – COMMERCIAL RESTRICTIONS

From our Correspondent

January 4, 1932

The crisis is beginning severely to affect the revenue. The ordinary revenue "realised" in the first five months of the current fiscal year (July

206. January 9, 1932, pp. 73-74. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

to November, 1931) is only 7,888.6 million lire against 8,333.6 estimated; the extraordinary revenue 30.8 against 71.6 millions. Total ordinary and extraordinary expenditure "incurred" amounted to 8,810 million lire against 8,800.4 estimated. The deficit amounts to 1,381.5 million lire against 830.5 in the corresponding months of 1930. Fortunately, these are, so to say, mythical figures, whose significance is very hard to grasp, mainly owing to the fact that the expenditure incurred or "obligation to pay" is not synonymous with "payment made"; and revenue "realised" is not revenue "cashed". If we leave aside the niceties of our very complicated accounting language and look at the hard facts of revenue "cashed" and expenditure "paid" the results are better, namely, 6,479.1 million lire of revenue cashed and 6,124.2 millions of expenditure paid, during the period July to November 1931. In the same period of 1930 revenue amounted to 6,905.0 and payments 6,124.6 million lire. As usual at this time, creditors, mainly entrepreneurs, who have executed works for State account or sold goods to public authorities, complain of an unusual slowness in overdue payments.

The Exchequer is bent on maintaining a strong cash reserve, which at November 30, 1931, reached the high figure of 2,321.0 million lire. Following methods already adopted in 1923 and 1924, the Exchequer keeps the largest part of this fund deposited on current account at the Bank of Italy. These deposits amounted to 2,075.5 million lire at November 20th, thus keeping the note circulation correspondingly lower. The most important decreases are in revenue from taxes on transactions. Revenue from registration taxes fell from 321.8 to 275.4 millions, stamp duties from 261.7 to 252.5; mortgage taxes from 69.6 to 65.3; duties on securities from 180.4 to 165.1 million lire for the five months' period. The only increase is in the sales tax, from 398.9 to 488.4 millions, but the tax-rate was in the meantime increased from 0.50 to 1.50 and ultimately to 2.50 per cent. Consumption tax revenue decreased from 2,262.5 to 1,839.5 million lire; lottery revenue from 155 to 146.9; and the tobacco monopoly from 1,057.4 to 1,005.8 million lire. This last is the most disappointing item, as in the Spring of 1930 tobacco prices were put up by 23.10 per cent., and 12 per cent. of the total yield, up to 500 million lire yearly, was appropriated to the Public Debt Sinking Fund. The increase of the yield was from the first much less than had been hoped, and now there is a net decrease. The Sinking Fund never received its quota except for the very first months and is at present practically in abeyance, as it is a vain pretence to re-

duce public debt in the face of a deficit. The State Railway Accounts for 1930-31, now published, closed with a surplus of 482 million lire, against the 584 million in the preceding year. The surplus, although not a true net surplus, because interest and amortisation of old capital and other minor capital expenses are borne by the Treasury out of the general State Budget, is welcome, because it means that the crisis has not played havoc with the State Railways. Revenue decreased from 4,826 in 1929-30 to 4,166 million lire in 1930-31; but as expenditure decreased also from 4,281 to 3,694 millions, a surplus was maintained. There is some misgiving about the reduction in the expenditure for maintenance of tracks, rolling-stock, and renewals and improvements; the fear is lest savings should be made at the cost of efficiency. Professor Flora, member of the board of directors of the State Railways, states, however, that no loss in efficiency is to be feared, thanks to generous allowances of past years. In the five months July to December, 1931, the decrease in traffic revenue continued; it fell from 1,871 to 1,541 million lire.

Italy is joining, not without reluctance, in the general rate of commercial restrictions. On the one hand the compulsory quota of national hard wheat to be milled, which was lowered from 95 to 75 per cent. as from November 1st, has been further reduced to 50 per cent. from January 1st, the quota of soft wheat remaining apparently fixed at 95 per cent.; on the other hand, a cattle quota is introduced for the first time. The number of cattle imported in the first ten months of the year decreased from 218,421 in 1930 to 154,117 in 1931, and fresh and frozen meat from 50,460 to 41,908 tons. Prices are lower by 50 per cent., and a further fall in prices for Jugoslavian imports was feared. A decree of December, 1931, and a subsequent regulation of the Minister for Agriculture fixed at 85 per cent. the compulsory quota of home cattle to be slaughtered. The price of cattle on the home markets is firmer.

Encouraged by success, other people are clamouring for restrictions. Imports of motor cars are subject to prohibitive duties, but out of 20,000 agricultural tractors operating in Italy, 16,000 are of foreign makes. In the first nine months of 1931 agricultural machinery imported totalled 41.2 and agricultural implements 7.5 million lire. Mineral phosphates imported in the first ten months of 1931 still totalled 398,916 tons (749,397 in 1930); copper sulphate, 8,755 (12,545 in 1930); nitrate of soda, 50,922 (69,975 in 1930); sulphate of ammonia, 5,433 tons (18,848 in 1930); potash fertilisers, 15,001 tons (38,389 in 1930); other chemical fertilisers, 57,556

(98,860 in 1930). Although all items are fast decreasing, the residuum is still excessive in the eyes of home producers, who would like to see imports reduced, by higher duties or the quota system, to the level of calciocyanamide, which fell to 45 tons in 1931, against 10,868 tons in 1930 (first ten months). There is an ample unused domestic productive capacity, as the production of superphosphates decreased from 1.19 to 0.69 million tons between 1930 and 1931 (first ten months); and sulphate of copper could be produced at a rate of 200,000 tons a year instead of the present 66,000 tons.

On December 23rd a writer of the *Sole*, and influential commercial daily, complained that Tripolitania imports from Italy only 150 million lire worth of goods out of 250 millions total; Cirenaica 95 out of a total of 150; Eritrea 120 out of 200; Somalia 35 out of 140, and the Ægean Isles 20 out of 75. Italy should capture the whole or almost the whole of this trade. Another writer in the same newspaper is scandalised that in 1930 foreign ships transported 13.4 million tons out of a total of 35.6, and proposes that lower duties shall be charged on goods carried under the national flag.

Some people are beginning to wonder what will be the result of this universal scramble to reduce imports. Signor Belluzzo, an ex-Minister, who is president of the "Buy Italian" campaign, fears retaliations against increases of duties. The Council of the National Federation of Iron and Steel Traders is careful to point out the risk of retaliation inherent in a high tariff policy, but is in favour of the "Buy Italian" campaign, and earnestly urges its 23,000 members to prefer national goods, hoping that industry will aid the movement by a policy of just prices. In September a new general duty of 10 per cent. was put on all imports. A decree published on January 1st in the Official Gazette empowers the Government to limit or prohibit imports of such goods as the Finance Minister shall deem advisable in reference to impediments put by foreign countries to our exports.

For the third time monthly figures of foreign trade are favourable; there were export surpluses of 39.4, 34.9, and 42.9 million lire for September, October and November, 1931, as against import surpluses of 370.0, 280.5, and 342.7 million lire in the corresponding months of 1930. As the situation of national industry is no better in consequence of that long-hoped-for achievement, it is beginning to be realised that an export surplus is not an unmixed benefit, as it may be the effect of the failure

of invisible exports or of a dangerous limitation of raw material imports or both. England's abandonment of free trade has caused the fact to be recognised that it is impossible to export if everybody is refusing to buy. From the excess of ill, we may thus at last hope for a ray of light in the shape of international agreements, even if these appear in the crude mercantilist garb of quotas, pooling of foreign exchanges and other devices strangely reminiscent of a bygone era.

207.

ITALY

PUBLIC FINANCE — STOCK EXCHANGE — CARTELLISATION

From our Correspondent

Turin, January 18

Last week the attention of the public was focussed on the articles inspired, or rather written, by Signor Mussolini in his "personal" newspaper *Il Popolo d'Italia*. The general optimism diffused by the policy of cancellation of German reparations and inter-Allied debts had the effect of throwing into relief such unfavourable facts as are daily disclosed by official statistics or statements. The last Cabinet Council, for instance, fixed at 20,059.9 million lire the public expenditure for 1932-33, which is 736.2 millions higher than the original estimates for 1931-32. As supplementary variations have increased these 1931-32 estimates from 19,323.7 to 21,120.9 million lire, and these, in their turn, are exceeded in fact, it is to be feared that the new estimates for 1932-33 will prove insufficient. On the other hand, the revenue estimates for 1932-33 are put at 18,647.2 million lire, which is 252.3 millions lower than the original 18,899.5 million lire and 1,525.5 millions lower than the revised 20,172.7 million lire estimates for 1931-32. How the resulting deficit of 1,412.7 million lire will be provided for is not stated; the official *communiqué* is content to state that before June 30, 1933, means will be found,

207. January 23, 1932, pp. 174-175. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

according to the changing general situation, to balance the Budget. Hopes are abroad that the situation will change for the better and that no further drastic cuts in the salaries of public servants or other turns of the financial screw will be necessary.

The increase of unemployment almost to the million mark – 972,321 at December 31, 1931, against 878,267 at the end of November and 642,169 on the last day of 1930 – failed to shake the newly-born optimism. It is, indeed, an optimism on a slender basis. Bank of Italy shares, which at January 9th were as low as 1,381 lire, closed on January 16th at 1,430; Monte Amiata (quicksilver) rose from 50 to 69; Fiat from 130 to 145; Edison (electricity) from 440 to 483; Beni Stabili (real estate) from 560 to 573. There are significant exceptions, mainly in shipping; the Cosulich (Trieste) Company sank further from 56 to 49, the General Navigation Company from 230 to 224. The public is absent from the market; or rather is devoted to fixed interest securities; for instance, 5 per cent. State nine-year bonds are as high as 101.40, and the 6 per cent. mortgage bonds of the Milan Savings Bank are also above par at 509.50. If a reaction occurs, it will not beget havoc, as nothing savouring of a boom has happened. Recent figures published by the Joint Stock Companies Association show that during 1931 reductions of capital (from winding-up, losses, devaluations) amounted to 5,760.3 million lire, thus exceeding investments, which totalled only 4,332.4 million lire. The total capitalisation of joint-stock companies thus decreased during the year from 52,280.8 to 50,852.9 million lire.

The Corporative system is being more and more utilised for purposes of industrial cartellisation. The National Rice Institute, which began its life on October 13, 1931, sold 100,000 tons of rice at an average price 200 lire per ton higher than the 450-480 lire quotations of August last. The General Confederations of Industry and Commerce have ratified the pact between machinery producers' and merchants' associations for the regulation of sales of industrial and agricultural machinery. The interesting point is that conditions of sale are now the result, not of free bargains between the interested parties, but of decisions of semi-public bodies. An even more important step in this direction was made by a legislative decree which gives authority to the Minister for Corporations to create compulsory consortiums between industrialists in the iron and steel industry aimed at the regulation of the production and sale of their products. A syndicate in this field was formed in August, 1929, but dissolved on December 31, 1931, owing to the opposition of what is described as a small minority represent-

ing 2 per cent. of the total production. After the publication of the Minister's decree, the General Confederation of Industry is to convene a general meeting of all industrialists in this branch of production. The meeting is to be deemed valid if two-third of members representing four-fifths of total production are present, either personally or by proxies. The meeting will discuss regulations of the consortium; which, if unanimously voted, will become immediately operative. If unanimity is not forthcoming, the President of the General Confederation of Industry will decide finally and without appeal. The life of the compulsory consortium will be limited to September 30, 1932. It is hoped that, before that date, the industry will be reorganised. The problem is the usual one of excessive production and capitalisation, of too numerous firms, of high costs fostered by very high protection. Except during the war period, the iron and steel industry has hitherto led a chequered life, mainly at the expense of taxpayers and consumers. To lift the industry to higher productive plan, without new sacrifices for taxpayers and consumers, would be, indeed, a great feat. Meanwhile, the corporative system is being carried to its logical conclusion. Its action cannot be limited to the regulation of wages and other relations between employers and employees; it is perforce being extended to the regulation of prices, production and distribution. Wages are only one factor in the general economic equilibrium; and their public regulation implies a regulation of all other factors.

208.

ITALY

DEFICITS – TAXATION – STOCK EXCHANGE

From our Correspondent

Turin, February 1

Official statements have now been published relating to past and current budget deficits. The Court of Accounts has definitely approved the accounts for the fiscal year 1930-31, closing with a deficit of 504 million lire. This is less than the deficit provisionally announced last July, which

208. February 6, 1932, p. 301. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

was 896 millions. The latter, according to our accounting methods, is the deficit of the budget proper, *i.e.*, revenue and expenditure, made or to be made, relating to the fiscal year in question. On the other hand, the account of *residui*, or uncashed or unpaid balances on account of fiscal years up to June 30, 1931, closed with an increase of 341.9 million lire (from 2,393.8 millions to 2,735.7 millions) in the revenue still to be received, and a decrease of 922.5 million lire (from 6,974.2 millions to 6,051.7 millions) in the expenditure to be made. So far so good. Leaving out of account past revenue still due, which is an uncertain affair, the 504 million lire deficit of 1930-31 appears to be fairly compensated by the decrease of 922.5 millions in unpaid balances.

The situation with regard to present and future budgets is more serious. The first six months of the current fiscal year close with a deficit of 1,668.9 million lire, and the Budget for 1932-33 reveals an estimated deficit of 1,412.7 millions. It would not be an easy task to find new sources of revenue, as the limit of taxation seems to have been reached. Signor Mazzuchelli, in the January issue of the *Rivista Bancaria*, has pointed out that, notwithstanding the fact that new taxes to raise an additional yield of 459 million lire in the period from July to November, 1930, were imposed, revenue increased only by 239 millions (from 7,649 millions to 7,988 millions) compared with 1929; likewise, in spite of 365 million lire new taxation in the same period of 1931, revenue decreased by 600 millions (from 7,988 millions to 7,388 millions) compared with 1930. Signor Rocco, Minister for Justice, points out in an authoritative statement to *La Stampa* that any increase of taxation would be useless and would most probably result in a further decrease of yield, as the crushing burden of increased taxation would compel many taxpayers to go out of business. Nor is it easy to effect further economies, and, if they proved possible, they might react unfavourably upon revenue. Therefore, says Signor Rocco, the only alternative open to statesmen is to influence the economic situation in such a way as to limit the effect of the crisis. Signor Olivetti, General Secretary of the Confederation of Industry, in another statement to the Press, remarks that the best beginning to the solution of the world crisis would be the tackling of the monetary problem. It is useless to pretend that budget deficits and economic crises can be remedied while monetary systems are unstable. Nobody can work and plan on the base of unstable money. Only an international conference, however, can grapple with monetary problems.

Optimism on the stock exchanges has continued. Bank of Italy shares, which had been marked up from 1,381 on January 9th to 1,430 on January 16th, closed on January 30th at 1,500; Fiat rose from 130 to 145 and 155

between the same dates, notwithstanding that the dividend may be passed; Edison from 440 to 483 and 493; Beni Stabili (real estate) from 560 to 573 and 583; Eridania (sugar) from 240 to 248 and 277; Snia Viscosa, which has lately increased its turnover and will distribute a dividend of 14 lire, increased from 165 to 185 (after a grouping of five old shares into one). Shipping securities are dormant; so are banking shares, with Credito Italiano pegged at about 700 lire and Banca Commerciale Italiana hovering around 1,100. The new Institute of Industrial Credit, which, it was said, would have relieved the "Sofindit" of a great part of the securities passed on to the latter from the Banca Commerciale, does not appear to have begun operations. Senator Mayer, president of the Institute, is reported as willing to assume responsibility only for sound securities with a safety margin under real values; so that it should not be necessary to call upon the State guarantee for debentures issued. Operations are therefore bound to drag on, and mobilisation of frozen bank assets is going to be slow.

209.

ITALY

FOREIGN TRADE. – Imports and exports both contracted in 1931, but whereas, according to the statistics published by the General Confederation of Industry, prices went down to 50 and 49.7 per cent. of the 1925 basis, respectively, for the first nine months of the year, quantities decreased to 89.3 per cent. for imports and increased to 108.7 for exports. The index of export prices, according to Bachi, is only 274 on a 1913 basis, against 350 for import prices. As these indices do not relate to the same goods, we cannot infer from them that Italian goods are being dumped in foreign markets; but, especially after the slump in sterling, Italian manufacturers are keeping their hold on foreign markets only by selling without any profit at all. As the surplus of imports over exports did not exceed 1,600 million lire, and the other items of the balance of payments probably offset it, a different explanation must be sought for the decrease from

209. February 13, 1932, pp. 15-16. The article, unsigned, was published in the supplement: *The Economist. Commercial history & Review of 1931*. Its attribution to Luigi Einaudi is certain because the original manuscript, without date but entitled "Commercial history. Italy", is kept in the Einaudi archives.

9,624.3 million lire at December 31, 1930, to 7,796.4 at December 31, 1931, of the gold and gold exchange reserves of the Bank of Italy.

CROPS. – Wheat had a fairly good year, whereas other crops were less bountiful. As the price of the wheat after the harvest sank as low as 700 lire per ton, duties were raised to 750 lire, and a wheat quota of 95 per cent. for national wheat was made compulsory for millers. The price rose to 1,000 per ton, and by the end of January, 1932, to 1,100. A National Rice Institute was created, which, by giving an export bounty now fixed at 310 per ton, kept the price at 700 lire, well above the international 450 lire level.

INDUSTRY. – The only industries which showed increased activity were rayon and aluminium; in all other fields there was a slowing down, which was in certain instances very pronounced. The building permits for 17 cities decreased from 187,355 rooms in 1929 to 149,740 in 1930, and 92,509 in 1931. Permits, moreover, now not infrequently remain on paper. In the country, rural building is at a standstill, offering a faithful index of the bad plight of farmers. There are many empty flats available and nobody to rent them, especially in old houses. Electric power consumption is well maintained, at the expense of coal imports, which were probably reduced by 2 million tons. Imports of oil and gasoline are also falling; and sales of automobiles are still further reduced.

PRICES, WAGES, COST OF LIVING, AVERAGE. – Wholesale prices for the year are well under the stabilisation level: the average for 1931 was 341.6 (92.4 gold), the index for the end of December 326.9 (86.5 gold). The cost of living, which in 1929 was lower than the wholesale prices index level (445.6, against 480.7) was in 1931 higher (388.7, against 341.6). In the second half of the year the cost of living diminished slightly to 381.6; and to 340.2 at December 1st. Wages were maintained better with a reduction of about 13 per cent. under the 1929 level; but not unfrequently men are content with wages lower than the trade union rates. Unemployment, moreover, is rising: in 1931 the minimum was 573,593 at the end of June, against 322,291 at the same date in 1930; and the maximum was 982,321, against 642,169 in 1930 (December).

SAVINGS AND NEW CAPITAL ISSUES. – The great decrease of building permits is an index of decreased direct investments. Indirect investments through banks and bourses are practically nil. The only increasing item is deposits in postal saving banks; but here also the 1,025 million lire increase in the first 11 months of the year is less than the increase of postal

certificates (+ 1,339 millions), which give a yield of from 5 to 6 per cent., and are part of postal saving banks deposits. Thus, almost the only important source of new savings is tapped by the public exchequer and used to keep a big State current account at the Bank of Italy, for the sake of keeping down circulation. Other increases in ordinary saving banks and other banks are small. Investment in joint stock companies is for the first time a negative quantity, owing to losses and winding-up of badly-managed or speculative companies.

MONEY AND STOCK EXCHANGES. — Stock Exchanges were practically non-existent for the whole year, with the public absent, and operators forced to squeeze a living out of a dwindling market. The official rate of discount increased from 5.50 to 7 per cent. on September 28th, after England went off the gold standard. First-class commercial paper could be discounted at from 5.25 to 5.75 in the first four months of the year; then there was a relaxation to 4.75-5.50; rising again to 6-7.25 after September. Prolongation rates kept very low for the whole year for State consols, from par to 5 per cent.; while on first-rate industrial securities money could be had from 4.75 to 7 per cent. Foreign exchanges did not depart, until May, from the higher gold point, hovering between 19.09 and 19.10 lire per dollar. Afterwards, the monthly average rates rose from 19.101 in June to 19.118 in August, 19.255 in September (occasionally touching 20-21 towards the end of the month) and 19.438 in December. Stringent regulations were enacted to prevent further rise. At the end of January, 1932, the lira, disregarding the stabilisation legal gold points, seems to be pegged to the 19.70 level.

PUBLIC FINANCE. — The financial year 1930-31 closed with a deficit of 895.9 million lire, but with an excess of cash payments over cash revenue of only 408.5 millions. The first semester of the current fiscal year, July to December, 1931, closes with a bigger deficit of 1,668.9 million lire. As usual, the cash situation is better, because cash revenue exceeds cash payments (on account of effective current revenue and expenditure) by 555.5 millions. Public internal debts, which rose from 88.102 million lire at June 30, 1930, to 91,442 millions at June 30, 1931, decreased to 91,418 at December 31.

ITALY UNDER FASCISM, 1925-1935

	1929	1930	1931
<i>Trade (million lire):</i>			
Imports	21,303	17,325	11,624
Exports	14,884	12,115	10,040
<i>Agricultural production (1,000 tons):</i>			
Wheat	7,079	5,717	6,748
Maize (spring)	2,434	2,850	1,883
Rice (raw)	674	650	631
Potatoes	2,008	1,954	1,503
Raisins	6,492	5,862	5,567
Hemp	90	91	57
Sugar beet	2,924	3,049	2,371
<i>Industrial output (1,000 tons):</i>			
Pig iron	678	534	509
Steel	2,143	1,774	1,453
Sheet iron	1,952	1,637	1,254 *
Quicksilver	2	1.9	1.2
Aluminium	7	9	11
Cement (monthly average)	291	290	263 *
Superphosphates (monthly average)	109	116	68 *
Paper (monthly average)	29	28	27 *
Rayon (monthly average)	2.7	2.5	2.9 *
<i>Industrial production:</i>			
Building permits in 17 cities (number of rooms)	187,355	149,740	92,509
Electric power (hydro- and thermo-electric, produced and imported) mill. k.w.	9,745	10,189	9,146 *
Imports of coal (1,000 tons):			
Commercial	11,480	11,020	8,729 *
Reparations	3,122	2,371	1,470 *
Imports of oil, gasoline, etc. (1,000 tons)	699	739	478 *
Consumption of cotton in years ending July 31 (1,000 bales)	1,038	1,001	788
<i>Transport:</i>			
State railways:			
Commercial goods loaded (1,000 tons)	60,343	53,599	44,190
Number of passengers carried (1,000)	116,891	104,881	88,433
Traffic receipts (million lire)	4,660	4,268	3,455
Goods entered and sent by sea (1,000 tons)	36,772	35,627	32,437
<i>Prices, cost of living, wages:</i>			
Index of wholesale prices, Milan (1913=100):			
Pre-war gold lire	130.5	111.6	92.4
Current lire	480.7	411.0	341.6
Cost of living, national (first half 1914=100)	445.6	430.5	388.7
Wages (July, 1928 to June, 1929=100) end December	102.1	95.5	89 ***
Unemployed, end December (1,000) .	408.7	642.2	972.3

MARCH, 1932

	1929	1930	1931
<i>Money market, finance</i> (end of December, and million lire, when not otherwise stated):			
Note circulation	16,774	15,580	14,236
Gold reserve	5,190	5,297	5,626
Foreign exchange reserve	5,191	4,327	2,170
Post office savings banks deposits	11,774	13,047	14,072 **
Other savings banks deposits	16,158	17,229	17,654 **
Net yearly increase of share capital of joint-stock companies	4,645	2,685	- 1,428
Stock exchanges (December, 1925=100)	81.2	66.4	50.1
Index of 35 leading shares	99.3	102.0	103.7
Index of 14 Milan debentures	741,144	664,445	607,928
Clearings (total of years)	12,906	15,789	20,763
Bankruptcies (total of year)	20,201	19,838	20,084
State revenue (year ending June 30)	19,646	19,668	20,980
State expenditure (year ending June 30) .			
Public internal debt (June 30)	87,134	881,102	91,442

* Eleven Months. ** End of November. *** End of October.

210.

ITALY

EXCHANGE – BANKING – INDUSTRIAL CONSORTIA – FOREIGN TRADE

From our Correspondent

Turin, February 16

The outstanding event in February has been the brilliant behaviour of the lira. After the slump of the pound sterling, the lira was marked down in New York from the par of 5.263 cents to about 5.05, where it was kept for several months by a severe restrictionist policy. On Tuesday, February 2, it touched bottom at 5.00³/₄; but the same day it rose rapidly and closed at 5.07; on Wednesday it rose further to 5.16, and reached on Friday the pre-slump level of 5.23. This is within the legal gold points, and the feat was hailed by a unanimous Italian Press as a proof of the good impression made on foreign markets, principally New York, by the announcement

210. March 5, 1932, pp. 517-518. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

of a final deficit of only 504 million lire for the fiscal year 1930-31, as against the previous provisional figure of 896 millions, and by the continued decrease of the note circulation of the Bank of Italy. The lira market is very restricted, and there is no great volume of foreign sight deposits in Italy, so that unfortunate sellers, caught short, rushed to cover.

Recently the lira has again fallen below the lower gold point, sagging slightly to 5.19 $\frac{3}{4}$. Signor Mazzucchelli has pointed out in the daily *Sole* that the most important figure in the Bank of Italy balance sheet is not the note circulation, but the sum of note circulation and other sight liabilities (public or private deposits and circular cheques) less total reserve, which difference is the sum put by the Bank at the disposal of commerce and finance. This sum increased from 8,712 million lire at January 20, 1928, to 9,449 millions and 10,585 millions at the same date of 1931 and 1932 respectively. The portion of this sum used for discounts and advances was respectively 4,461, 4,883 and 5,350 million lire. As the slump in wholesale prices must have diminished the requirements of the market, the Bank of Italy has vastly increased in the last four years, perhaps from 60 to 80 per cent., the sums offered for the financing of internal industry and trade. The Bank of Italy resembles the Bank of France rather than the other central banks, inasmuch as it carries a direct discount business, and has a great many offices open all over the country. The present increase in active operations is, however, mainly due to rediscounts of commercial and financial paper presented by ordinary banks.

So far, this "encouragement policy" of the Central Bank has failed to infuse new life into the market. The boomlet, which culminated in a rise of the general index number of variable dividend securities from 50.06 at December 31, 1931, to 52.06 at January 31, 1932, has already subsided, the index falling to 51.17 at February 6th. On the announcement of a reduction from 60 to 40 lire of the dividend paid on Banca Commerciale shares, these were marked down from 1,100 lire to 1,085 lire. The Banca Commerciale Triestina is to be absorbed by the Banca Commerciale Italiana, which already owns almost all its shares. The Banca Nazionale del Lavoro, a public bank, will absorb the Banca Popolare di Pavia, taking full responsibility for its deposits.

The Central corporative Committee has reached the following conclusions about compulsory industrial consortia: - 1) A big majority of interested industrialists will be the preliminary condition to their creation; 2) the competent (corporative) authorities ought to approve them from the point of view of national economy; 3) the State should limit and supervise their functions; 4) when a consortium is created, no new industrial estab-

lishments can be started or plants in existing establishments can be enlarged, without some sort of State or consortium control; 5) the Government shall have authority to revise or modify the rules of existing consortia.

These far-reaching conclusions have already some precedent in the present corporative system; as no new retail shop can be opened and no new factory in industries concerning national defence (for instance, motor-car factories) can be erected without Government authorisation. The new rules mean the extension to all industrial fields of the scattered tentative rules hitherto adopted. Their importance lies in the fact that free competition is becoming little by little a thing of the past. Newcomers will see the way barred to them, if a sufficient majority of industrialists to create a consortium are already in the field, and if the corporative authorities, who consist of representatives of employers and employees selected from above, with a certain number of public umpires, pronounce the consortium to be useful to national ends. Independent business men will be excluded from industry, as independent political groups are deemed absurd in a unified politico-social system. Experience alone will show how costs of production and competitive aptitude will fare under such centralised organisation of vested interests. Great hope, however, can be based upon the unlimited capacity of Italians to eliminate in practice the evil consequences of apparently inflexible written rules.

The quota system has been extended from live cattle to fresh and frozen meat, the first order, which limited foreign cattle to 15 per cent. of total consumption, failed to sustain its initial beneficial effects on prices, as meat was imported instead of live cattle. The dangers of restrictions in foreign trade are becoming more and more apparent. Negotiations began today at Rome between Italian and French delegates as to the renewal of the commercial conventions, concluded between 1898 and 1928, which were recently denounced by France, as a retaliation against the application by Italy of differential quotas to certain French products, which, in its turn, was a retaliation against similar treatment by France of Italian imports. It is hoped that the negotiations will succeed. As otherwise the present conventions will lapse at the end of February. Italian wine growers are much concerned about the threatened suppressions of the differential tariff of 55 francs per hectolitre for common wines and 84.50 francs per hectolitre for fine wines, and hope that the fear of retaliation on champagne and other high-grade French wines will influence the French in the negotiations.

Meanwhile, international trade is slowing down: imports decreased from 1,025.3 million lire in January, 1931, to 732.3 millions in January, 1932; and exports from 692.2 millions to 526.1 millions. The deficit has

also decreased from 333.1 millions to 206.2 millions; but the spectacular slump in imports is a bad omen for industrial activity in the immediate future. The number of unemployed increased from 982,381 at the end of December, 1931, to 1,051,321 at the end of January, 1932, against 722,612 at the end of January, 1931. This constitutes a record for many years.

211.

ITALY

RAYON — BANKING — COMMERCIAL TREATIES — WHEAT QUOTAS

From our Correspondent

Turin, March 14

Shareholders' meetings, banking developments and commercial negotiations have been interesting enough in the last two weeks, but they were insufficient to arouse interest in the stock exchanges, which remained dull, dominated by the usual current of continuous purchases by the saving public of fixed-interest-bearing public securities. The subscription to the first 150 million lire issue of 6½ per cent. debentures of the Naval Credit Institute at 480 lire, with a net yield of 7.4 per cent., which should have remained open until March 15th, were closed on March 8th, as the required sum was heavily over-subscribed at that date.

The report of the Banca Commerciale Italiana has perhaps marked a turning point from which should date the final liquidation of past frozen assets, and the decrease of current commercial insolvencies. This impression was strengthened by another important shareholders' meeting, that of the Snia Viscosa, the biggest Italian producer of rayon. The directors' report stated that the world situation was better in 1931 than in 1930, production having increased from 195 to 215 million kilograms and consumption from 175 to 225, so that stocks decreased from 45 to 35 million kilograms. In this improved world situation, the Italian industry was well able to take its fair share; production increased from 30 to 34.6 million kilograms, or 15 per cent., exports from 19 to 21 million kilograms, and inter-

211. March 26, 1932, pp. 686-687. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

nal consumption from 10 to 12 million kilograms. As Italian exports in 1931 went as to 28 per cent. to China, as to 23 per cent. to Germany and 9 per cent. to India, the results achieved appear remarkable. They were possible only through reduction of costs – Snia Viscosa costs were reduced by 45 per cent. on the 1930 average, together with a reduction of 30 per cent. on salaries and wages. The 1931 accounts of the Châtillon Artificial Silk Company did not permit the distribution of a dividend, but 21.8 million lire were allocated to the amortisation fund. The company's production increased by 20 per cent., while its costs decreased by 17.3 per cent. and its selling prices by 23 per cent. The Fiat Company also had to omit the distribution of a dividend for the year 1931, owing to a decrease of 43 per cent. in its production of motor cars, but was able to allocate a sufficient sum to reserve and to maintain at work a staff of 27,000 hands, some of them possibly on a short-time basis.

Two banking failures, that of the Banca Bergamasca di Depositi e Conti Correnti, of Bergamo, and that of the Unione Bancaria Nazionale, which, though medium-sized, had flung its net widely in the thickly industrialised districts of Bergamo and Brescia with 120 and 600 million lire deposits and correspondents' accounts respectively, originated a short-lived panic among the customers of other banks. The panic was soon checked; the Banca Bergamasca offered to depositors payment in cash up to 79 per cent. of their credits, the remaining 21 per cent. to be paid in shares of a reconstituted bank; and authorisation was therefore given for the resumption of operations. The Banca di Gallarate, to which the panic was extending, was promptly absorbed by the Credito Italiano, which took full responsibility for its deposits.

Commercial negotiations have been rife in Rome during the past few weeks; new treaties have been negotiated between Italy and France, Germany, Spain, Austria and Hungary. All of them may be characterised as provisional, the contracting States reserving to themselves far more freedom to change custom duties than in older treaties, but all of them hope for more stable and general agreements in the future. The Italian Press was unanimous as regards the instability of the Successor States in the Danubian basin, and advocated stricter commercial relationship between them all, at least by groups of two, to be sponsored by France, Great Britain, Italy and Germany. The French-Italian *modus vivendi*, while maintaining tariffs at the present level, leaves to the contracting parties greater freedom to establish quotas for special reasons and special goods. Further negotiations between interested producers are contemplated for wine and motor cars, and conferences are already being held in Paris and Rome respec-

tively. Dr. Schüller, the well-known Austrian economist and economic section-chief at the Austrian Foreign Office, is in Rome, as special negotiations have to be conducted in consequence of the cessation as from April 10th of the Italo-Austrian Clearing Agreement. As Italian exports to Austria were greater than Austrian exports to Italy, a debt was accumulating against Austria which it seemed inexpedient to let grow indefinitely, and, therefore, the clearing agreement was denounced by Austria. Something, however, will have to be substituted if trade is to continue.

As the quota system for imports of wheat and other agricultural products from Empire and foreign countries is under examination in Great Britain, present Italian experience may be of interest. A quota system was established last autumn, under which only 5 per cent. of foreign wheat could be milled, 95 per cent. being reserved to domestic wheat. The aim was to raise and stabilise prices at about 1,000 lire per ton. The price aimed at was reached; but the system soon proved unworkable, owing to the necessity of blending different sorts of foreign and home-grown wheat, in different proportions for different uses. Moreover, as the internal production was being gradually consumed, a higher proportion of foreign wheat was required. Unhampered by parliamentary delays, the Italian Government changed the quota proportions in a rapid series of Decrees, according to the requirements of trade. The last change is to take place on March 21th, when hard foreign wheat will not be allowed to exceed 80 per cent of total milled wheat. As to soft wheat, foreign imports may not exceed 50 per cent. in Northern and Central (excluding Latium) Italy and 30 per cent. in Latium, Southern Italy and Isles. It would seem clear that, should a similar plan be devised, the House of Commons should delegate to a Minister or a Commission the power to effect from time to time the needed changes in the quota; and that the problem will be made more difficult if the quota system should be the result of binding conventions between the Mother Country and the Dominions. The quota system could not have been made to work in Italy if legal proportions of foreign and domestic wheat were not promptly changeable, even by districts. Even so, the price has not been maintained at the 1,000-lire level which was deemed sufficient at the beginning, the level having gone up at present to 1,200 lire, with no small complaint from those agriculturists who have sold their wheat at or under 1,000 lire per ton. Clearly the quota system, if it is to work at all, is a case for free administrative regulations, as opposed to legislative acts or international conventions.

212.

ITALY

BANKING – EXCHEQUER BONDS – UNEMPLOYMENT – CARTELS

From our Correspondent

Turin, April 4

Perhaps the only visible reaction of changed monetary conditions has been the reduction by the Bank of Italy of its discount rate from 7 per cent. – to which level it had been raised from $5\frac{1}{2}$ per cent. on September 28th – to 6 per cent. on March 21st. This was a move preliminary to the issue of a milliard 5 per cent. nine-year Treasury bonds, to take place between April 7th and 20th. The bonds will be made attractive by 58 half-yearly premiums ranging from one million to 10,000 lire. The issue is at 97, and, including premiums, the yield works out at about 6 per cent. The proceeds will primarily be used to reimburse the 1924 4.75 per cent Treasury bonds which fall due in November, and of which there are outstanding 905.8 million lire. As subscriptions will probably exceed a milliard, the surplus will be welcomed by the Treasury, which is subjected to the strain of a budgetary deficit amounting for the first eight months of the year to 2,091.2 million lire. Owing to the usual time lag between budgeting and disbursements, the excess of actual expenditure over actual receipts has been in the same period only 633 million lire.

The Exchequer needs, however, to be relieved, particularly in view of the fact that the floating debt amounted on February 28th to 6,130.6 million lire, almost wholly due to the Deposit and Loan State Bank, a public institution to which are entrusted the deposits of postal saving banks and the funds of various social and public insurance bodies. As in France, this Deposit and Loans Bank (*Casse Depositi e Prestiti*), though little known among the general public, is the biggest bank in Italy, with funds of upwards 17 milliard lire. Of these, roughly 6.6 are advanced to public bodies, provinces, municipalities, public works and other corporations, 4.6 are invested in State securities, and 6 are advanced to the State Exchequer as a current account. Thus the bank, by canalising savings to the State and other public bodies, is a major pillar of public credit.

212. April 16, 1932, p. 851. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

Trade and industry grow restive from time to time under this wholesale absorption of public savings for State use. At present, however, criticism is disarmed, as it was by means of the large funds in possession of the D. and L. Bank, that the Bank of Italy was able to withstand the monetary storm of last autumn without decreasing advances to trade. As Governor Azzolini observed at the shareholders' meeting held on March 31st, the Bank of Italy had to suffer a decrease during 1931 in the total gold and gold exchange reserves amounting to 1,827 million lire, in order to satisfy the demands of importers and other debtors. The Bank therefore decreased its note circulation during the same period by 1,385 million lire. Instead of contracting, discounts and advances – inclusive of advances to the Liquidation Institute – increased by 972 million lire, a feat which was possible only by an increase of 603 million lire in the current account of the Exchequer at the Bank. These letters have repeatedly called attention to this interesting policy, akin, in a way, to the open market operations of the Bank of England and the Federal Reserve Board. It works somewhat on the following lines: Private savings are deposited at from 5 to 6 per cent. in the postal banks, who in their turn transfer their deposits to the D. and L. Bank; the D. and L. Bank lends some of it to the State Exchequer, presumably at the same rate of interest, the Exchequer redepositing a part of it at the Bank of Italy in a 1.50 per cent. current account, thus enabling the Bank of Italy to keep the note issue within strict bounds. The system has worked out satisfactorily, partly owing to the crisis, which renders savers shy of direct investments and devout buyers instead of postal bills and of Treasury bonds. The saving public being obdurate against buying of shares and advances to industry, it is made to invest its funds in industry by these devious ways.

An interesting interpretation of the continued increase of unemployment is given in the Press. The net number of emigrants, which was 151,000 in 1930, decreased in 1931 to 58,000 and in the first two months of 1932 to 6,000. This fact does not entirely account for the increase from 642,169 unemployed at the end of 1930 to 982,321 at the end of 1931 and to 1,147,945 at the end of February, 1932, but may have been a contributory cause.

Further regulations enacted by a recent Cabinet council add interesting details to the general outlines already given of compulsory State-regulated cartels (*Consortzii*). In the industrial field, the consent of 75 per cent. of the firms of a given branch and of 75 per cent. of capital invested, or of 90 per cent. of capital invested only, if the necessary quorum of firms is not forthcoming, is required for the constitution of such compulsory kartels. In the agricultural field a firm's quorum would not be attainable owing to the

great number of farmers, and therefore the consent of 70 per cent. of production will suffice. Government factories or societies, with a 50 per cent. Government capital share, shall be obliged to become members of such cartels, or, at least, to act with them. Minorities shall have a right of appeal to a special board in case of regulations limiting their freedom of action. The State can delegate a public supervisor with a seat on the board of directors of the cartels. Nobody shall start a new business in an already cartelised field without State authorisation, and should the authorisation be granted, he must enter the cartel at once. A jute cartel has been recently formed, and many others are planned. Whether cartels are going to be an appropriate remedy for the crisis is doubtful. At the meeting held on March 31st of the shareholders of the "Montecatini", a big concern interested mainly in the field of artificial fertilisers (57 per cent. of the national production of superphosphates), it was stated that the consumption of superphosphates in Italy fell from 1,525,000 tons in 1929 to 1,287,000 tons in 1930 and to 892,500 tons in 1931. Cartels or Consortiums, however State regulated, will be of no avail against the reaction of the consuming public if they are not able to reduce costs and prices.

213.

ITALY

PROCEEDS OF LOAN – BANK OF ITALY – EXCHANGES

From our Correspondent

Turin, April 18

The outstanding event of the past fortnight was the remarkable success of the one billion lire issue of nine-year 5 per cent. Treasury Bonds, a success even more remarkable than was previously anticipated. The total sum subscribed was around 4,400 millions. This heavy oversubscription was in part due to the anxiety of capitalists anxious to secure the largest possible sum in case of allotments; but it was largely due also to a genuine offer of savings by the public. As Signor Olivetti observes in the *Stampa*, the fact that subscriptions did not proportionately reduce bank deposits, suggests

213. May 7, 1932, pp. 1024-1025. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

that in Italy also there has been a certain amount of hoarding due to mistrust of banks and stock exchanges. The subscription, which would have remained open until April 20th, was closed at the end of the second day, and an official statement soon afterwards announced that the Treasury would keep 4 billion lire, returning the remaining 400 millions to subscribers. On April 9th a motion was voted by the Great Fascist Council to the effect that 905 million lire were to be used in repayment of the 4.75 per cent. Treasury Bonds, due on November 15th, one billion to finance public works and State purchases of industrial supplies, one billion to meet the Budget deficit, and the last billion to be credited to the Liquidation Institute, so as to enable it to reduce its debt towards the Bank of Italy. Such an allocation is highly significant, as it means that, leaving aside the first billion, which is merely substituted for the old 4.75 per cent. Bonds, the other three billions will be divided into two parts, of which two are to be put into the State Exchequer. These two billions will go far to cover the 1931-32 deficit.

The most interesting utilisation of the proceeds of the loan is, however, that whereby one billion lire is credited, through the Liquidation Institute, to the Bank of Italy. The Bank of Italy balance sheet of March 31, 1932, shows on the assets side a credit of 1,613 million lire with the Liquidation Institute, which I have previously described as a reservoir of frozen assets, which should have been dried up little by little by means of generous gifts on the part of the State and the Bank. Its origins go back to the great post-war slump of 1921-22, when about 4,000 million lire of frozen assets – which really amounted to losses – were taken over from the Banca Italiana di Sconto and the Banco di Roma. With a patient stewardship, the figure was reduced to 626 millions at the end of 1930, to go up again in the spring of 1931, reaching at last the above sum, for which the Banca Agricola Italiana, a bank connected with the many Gualino ventures, were mainly responsible. The loss should have been made good by means of a yearly gift of 200 millions from the State Exchequer and of part of certain banking taxes and of the profits of the Bank of Italy. The allocation of 1,000 million lire out of the proceeds of the Treasury Bonds issue, will again reduce the credit of the bank to a manageable figure and enable it to reduce circulation correspondingly, or, according to the current opinion, to increase discounts and advances without resorting to inflation. In short, this Treasury Bonds issue, in so far as this one billion is concerned, would have been a device for snatching notes from timid hoarders and putting them again in circulation; a somewhat costly device, but understandable enough in these hard times. Much speculation is afoot as to who will benefit from the en-

larged credit policy of the Bank of Italy. Discounts and advances reached on March 31st the total of 5,637.7 million lire, against 4,371, 3,940, 5,213, and 3,853 at the same date in 1931, 1930, 1929 and 1928 respectively. There seems to be no need in the face of these figures for any reflationist credit policy. If easier banking facilities by the Bank of Italy are deemed necessary, it will probably be not so much for the sake of stimulating industry as of easing its financial situation, which, indeed, is industry's most urgent problem at present, in Italy as elsewhere.

The solution of this problem, however, cannot be taken in hand at present, on account of the foreign exchange situation. During 1931 the gold held by the bank increased by 329.5 million lire; but the gold exchange securities diminished by 2,156.3 millions, with a net decrease of total reserves of 1,826.8 millions. During the first quarter of 1932 gold increased by 1.6 million lire, while gold exchange securities decreased by 636.5 millions. The total reserves on March 21st (5,627.9 millions gold and 1,533.7 millions gold securities) are, however, amply sufficient to guarantee a circulation reduced to 13,876 millions. The puzzle in the Italian position with regard to foreign exchanges and the balance of international payments is: since the excess of imports over exports in the first quarter of 1932 was of only 530.5 million lire, against which should be credited the invisible items of our balance of payments, certainly still favourable notwithstanding a decrease in foreigners' expenditure and emigrants' remittances, what is the cause of the decrease in the gold exchange securities held by the Bank of Italy? The recall of foreign deposits should have spent its force in 1931. Except for a rediscount of 367.8 million lire obtained by the Institute for Industrial Loans (*Consorzio sovvenzioni valori industriali*) from the Bank for International Settlements at Basle, there are no current capital sums due from Italy to foreign markets. On the contrary, it is probable that Italians have large foreign balances, though these are partly frozen. Professor Mortara, in the *Prospettive economiche* for 1932, also endeavours to solve the puzzle, quoting among other causes of the decrease of reserves in the face of a favourable balance of payments, possible purchases of future lire, exceptional credit terms to foreign buyers – Russian buyers for instance – difficulties in the cashing of foreign credits, keeping abroad by Italian exporters of their funds, and exports of capital. Reasoning from known data, and barring unforeseen developments, hopes are entertained that the tendency to a decrease in the foreign exchange securities held by the Bank of Italy may have spent its force, and that any further decrease will be due to a deliberate policy of the bank of exchanging gold securities for gold proper.

214.

ITALY

BUDGET CONTROL – TAXATION AND DEBT – REFORMS

From our Correspondent

Turin, May 16

Parliament has been busy in both Chambers in passing budgets – every department has its own expenditure budget – and if private members' speeches were not remarkable, the reports of committees were, as usual, of great interest. The report of Signor Mazzini on behalf of the General Budget Committee of the House of Deputies on the revenue and general expenditure budget makes rather sad reading. Assuming a reduction of 33 per cent. since 1928, Signor Mazzini estimates the present national income at between 60 and 70 milliard lire, say 68 milliards, if Professor Mortara's estimate be adopted. The tax revenue of the State, provinces and municipalities – exclusive of miscellaneous items and public services – amounted in 1913-14 to 2.5 milliards, in 1925-26 to 20 milliards, and is estimated in 1931-32 at 20.5 milliard lire. The significance of this burden can best be gauged if we translate these lire into lire of stable purchasing power. This gives a total tax revenue rising from 9.2 milliard lire in 1913-14 to 11.1 milliard lire in 1925-26 and to 23 milliard lire in 1931-32. The proportion between taxation and national income, which was about 12.5 per cent. in 1913-14, thus rose to 20 per cent. in 1925-26 and to 30 per cent. in 1931-32.

The crisis is playing havoc with general branches of revenue. Comparing ascertained results of 1929-30 with estimates for 1932-33, the yield of income tax has fallen from 5,192 million lire to 3,905 million lire, and the budget has therefore had to rely more and more upon indirect taxation. Stamp, registration and sales taxes rose from 3,168 million lire to 3,868 million lire, Excise and Customs duties from 5,321 million lire to 5,568 million lire, and salt, tobacco, matches and lottery monopolies from 3,493 million lire to 3,712 million lire. As the estimates for 1931-32 appear largely in excess of realised revenue (for the first eight months Excise and

214. May 21, 1932, pp. 1137-1138. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

Customs duties were estimated at 3,860.3 million lire and realised only 3,073.6 million lire), Signor Mazzini fears that estimates for 1932-33 may be in some respects too optimistic.

On the other hand, many items of expenditure are growing; for instance, the burden of public debts has risen from 4,572.7 million lire in the estimate for 1931-32 to 4,895.9 million lire in the estimate for 1932-33, exclusive of the interest and premiums appropriations for the last issue of 3 milliard lire fresh Treasury bonds, which will bring the total to about 5,150 million lire. The main cause of the increase in the annual cost of the public debt is the growth of the floating debt, in its turn caused by the difficult Treasury situation. Some comfort may be drawn from the fact that the Treasury position is, in part, due to the payment of arrears of expenditure budgeted for in past years. Further comfort is to be found in the thought that the State is keeping the floating debt at a high level in order to maintain a big cash account at the Bank of Italy, thus keeping down the note circulation.

Signor Mazzini is, however, gravely concerned at the outlook, and insists strongly on two points: — 1) No new burden in the budget shall in future be created except by law. The system of executive decrees should be stopped, to keep expenditure within strict bounds. 2) An end, or, at least, a very severe limitation, must be put to the system of State grants in aid of industry. The report quotes the instances of the Cogne Mines Company, a relic of the Ansaldo vertical industrial system, which was inherited by the State. The Cogne Co., directly or by subsidiaries, has absorbed several hundred million lire of State money, and now plans the utilisation of 500,000 h.p., instead of the present 60,000 h.p., and the building of a big thermo-electric plant of 200,000 h.p. for the utilisation of the anthracite mines situated in the mountain fields of La Thuile. The budget *rappor-teur* is horrified at such grandiose expenditure of State money in the face of 2,000 millions unsold kw.h., which the electric industry vainly endeavours to put on the market. In the Senate, Senator Ciccotti strongly opposed a Decree, dated February 3, 1932, which appropriated yearly one million lire as grant in aid for the fiscal years from 1931-32 to 1945-46 to the Lardello Borace Co. Such criticisms are a good omen. Economy, and very strict economy, is the only way to bridge the big and, we hope, transient gulf between revenue and expenditure.

215.

ITALY

FINANCE – CORPORATIVE COUNCIL – GRAIN QUOTA

From our Correspondent

Turin, June 13

Financial interest is still mainly centred in the Budget situation. The speech of the Finance Minister, Signor Mosconi, was not encouraging. Coming after Senators Federico Ricci, Ancona and others had insisted on the necessity of economies or new taxation – free conversion of consols, further reduction of salaries of public employees, taxation of all bearer securities were among the devices suggested – the Finance Minister stated emphatically that no tax on State securities was contemplated and that dividends on them will be punctually paid. That was satisfactory; on the other hand, after the general reduction of 12 per cent. in salaries of public servants, a further all-round reduction of them would probably not be well received. Nor is it easy to discover new sources of revenue, recent experience going far to prove that taxation has reached its yield limit. The Minister's policy was in some ways disquieting. The Budget for 1932-33 was recommended by him as a "wait-and-see" Budget (*bilancio di attesa*). No doubt the end of the world crisis will put many things right; but the crisis must be aided to approach its end, and the only way in which States and individuals can promote the end of the crisis is by putting their houses in order. To have recourse to a loan instead of to the printing press was certainly sound, but even the loan, however successful, bristles with temporary difficulties. On May 15th the banks completed the payment of the 4,000 million lire proceeds of the 5 per cent. nine-year Treasury bonds into the Exchequer. Private bank deposits being reduced by such a big amount, banks rediscounted bills at the Bank of Italy, and the discounts and advances figure of the Bank jumped up from 5,844.6 on April 30th to 6,819.1 million lire on May 30. As, in the meantime, partly in consequence of payments on bonds subscribed, notes issued decreased from 13,375 to 13,136.8, and current private deposits from 992.5 to 913 million lire, the

215. June 25, 1932, pp. 1409-1410. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

State Exchequer was forced to come to the rescue and pay into the Bank of Italy part of the proceeds of the loan. Treasury deposits, which had already increased from 1,514.3 million lire on March 31st to 2,350.9 on April 30th, increased further to 4,098.6 millions on May 20th, a record figure for several years. This financial incident shows that the theory widely held of vast cash sums hoarded somewhere, which the State and other borrowers could tempt forth by good investments, is not valid. At the present moment there are in this country no unused hoards ready to accept good offers. The limit to loans for public and private investments is the surplus saved from day to day from current national income.

There have been some very interesting debates at the National Corporative Council, which is tending to become the effective, though only preparatory, legislative body in our country. Under the chairmanship of Signor Mussolini two Bills were formulated, the first accepting the principle of preliminary examination of the priority of industrial inventions, the second on workmen's compensation, which will be in future administered by a public body, exclusive of surviving mutual insurance associations.

The coming harvest is already depressing future wheat and corn prices. While spot prices for wheat are 1,100-1,200 lire per ton, July futures are quoted at only 950 lire; and the corresponding spot and future prices for corn are 800 and 620 lire per ton. Rumours were recently current that the quota policy would be discontinued next year; but a Decree of June 10th, issued by the Minister for Agriculture, re-enacts the quota system. Soft foreign wheat will be milled only up to a maximum of 5 per cent. of total wheat milled from June 27th in Sardinia, from July 7th in Southern Continental Italy and Latium, and from July 15th in Central and Northern Italy. The percentage is increased to 30 per cent., as from June 27th, for Sicily. Hard foreign wheat will be admitted up to 5 per cent. as from July 7th in insular and Southern Italy and Latium, and up to 30 per cent. as from July 15th in the other parts of the country. The system, which was kept very flexible by continuous regional changes in percentages, worked very well in the interest of the farming class throughout the current year.

216.

ITALY

GROWTH OF CORPORATIVE SYSTEM – RAILWAYS AND ROADS – GAS – SIP

From our Correspondent

Turin, July 4

At a Ferrara corporative congress recently a few voices were heard advocating the vesting of all capital ownership in a body on which savers, capitalists, employers, technicians and workers should be represented. These prophets were howled down as Bolsheviks, and the overwhelming majority reiterated a profession of faith in the Labour Charter, which recognises individual initiative under State control. Intervention by the State is increasing daily, and is signalled by a systematic recourse to intermediate agencies between State and individuals. Workmen's insurance against accidents will be administered through a unified body, acting through existing or new organisations or syndicates. A new silk corporation is to be created, according to Signor Bottai. Its character is not yet very clear; separate syndicates for employers and employees will continue to exist, and the corporation will be a body representative of both, with functions of education and control which are now exercised by Government departments. Syndicates will pay the recently instituted premium of 1 lira per kg. of cocoons produced, a premium which will cost the Treasury some 30 million lire. The crisis is acute in the silk industry, and at the present cocoons price of 4 lire per kg. many spinners dare not buy.

There is some resistance to this gradual dispossession of public departments from their time-honoured functions, especially as frequently there is the risk that the control of expenditure of public money will be weakened by such a procedure. Anxiety is sometimes visible in parliamentary reports about the consequences of the growth of numerous intermediate bodies, such as syndicates, semipublic institutions, joint-stock companies whose sole shareholder is the State, and whose accounts are not subject to the

216. July 16, 1932, p. 123. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Growth of the corporative system. Public services and the multiplication of semi-public bodies. State Railways and motor-car competition. Italgas and Sip meetings. Plans against the crisis", dated "Turin, July 4, 1932", is kept in the Einaudi archives.

same degree of revision as the usual State accounts. In a recent report (Senate, 1176-A), Senator Mayer said that the probable losses of the Liquidations Institute could be estimated at 5,429 million lire, to be paid by taxpayers before 1940.

The crisis and the competition of motor cars are playing havoc with the revenue of the State railways, and a sum of 200 million lire is to be paid from the Treasury to the railways, in order to balance the 1931-32 accounts. The State railways appear to be active in devising remedies. As motor-car competition extends from short to long distances, drastic reductions for goods are granted, up to 70 per cent. for shorter hauls. To single firms reductions are granted provided that at least 400 tons per semester are loaded. Terminal charges are also being drastically reduced.

Senator Frassati convened on June 30th the shareholders of the Italgas Company, the biggest gas-holding company of Italy, whose lamentable story is already known, to hear the results of this liquidation. The gist of the matter is that 383.2 million lire must be deemed lost in consequence of the speculative adventures of past administrations. After charging 149.2 millions of it to the various reserve funds, the remaining 234 millions loss must be debited to capital, which is thus reduced from 260 to 26 millions (*i.e.*, from 100 to 10 lire per share, a remarkable fall from the 800 lire quotations of halcyon days). The capital will again be increased to 260 millions, by a share issue already guaranteed, to be offered at par to old shareholders. At the meeting of SIP, a big electric and telephone company, it was stated that the company owns plants with a yearly output capacity of 1,850 million kwh. of continuous energy and of 339 million kwh. of seasonal energy. During 1931, the production was limited to 1,245 and 47 million kwh. respectively, with a probable loss of some 100 million lire net revenue. The telephone plants were similarly used up to only 70 per cent. of their capacity, against a normal 90 per cent., thus entailing another loss of 50 million lire net revenue. The broadcasting monopoly, which is also vested in SIP, is as yet far from giving good results; subscribers represent only 0.5 per hundred population, against 2 in Switzerland, 4.50 in Germany, and 6.70 in England. The accounts close with a net profit, but with practically no provision for depreciation, only 8.2 million lire being set aside on a 847 million lire capital and 138 millions reserves, and with heavily overdrawn banking accounts of about 400 million lire. Directors state that a settlement is sought to fund this enormous floating debt, thus paving the way to resume the payment of dividends to shareholders as soon as the worst of the crisis is over.

217.

ITALY

NEW FINANCE AND CORPORATION MINISTERS — REGULATION OF CARTELS —
SICILIAN SULPHUR CONSORTIUM*From our Correspondent*

Turin, August 1

The appointment of Signor Jung as Minister of Finance in the place of Signor Mosconi passed without comment in the daily Press. The Budget situation, owing to the last issue of Treasury bonds, is strong from the point of view of cash in the Exchequer; but from the liability point of view, Signor Jung must solve a difficult problem. The current deficit for the fiscal year closed on June 30th amounted to 4,274 million lire. Other losses will have to be incurrent by the State, before a final settlement of the frozen assets of the Banca Commerciale is reached. These assets have been passed on to the Società Finanziaria Industriale (SOFINDIT), which in its turn ought to pay their price by pledging them to the Istituto Mobiliare Italiano (IMI), presided over by Senator Mayer. Very reasonably, Senator Mayer intends to advance money only to sound industrial concerns, because he can obtain the necessary money only by selling bonds to the market, and to this end savers must be persuaded that bonds are guaranteed on conservatively valued and profitably run industrial concerns. The first experiment on how the market will absorb the IMI bonds will be made by a 150 million lire loan to the Società Italiana Gaz, the great holding company reconstructed by Senator Frassati. After scaling down the capital from 260 to 26 million lire, the IMI should complete the reconstruction by converting the overdrawn banking account into a 150 million lire funded loan. Electrical, shipping and chemical industries also need long-term loans to ease their banking accounts and, therefore, the task of the IMI, to be completed, requires appeals to the market to the tune of billions of lire. The task of the new Finance Minister should be to eliminate competition between the needs of the Exchequer and of the IMI, with a view to the country's lim-

217. August 13, 1932, p. 311. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

ited saving capacity. Signor Jung, who was by profession a banker and, until yesterday, President of the Export Institute and of the SOFINDIT, was probably selected for his qualifications as a man capable of finding a solution to the problem.

Speculations as to the causes of the resumption by Signor Mussolini of the Corporations Department are more uncertain. The names of the new Under Secretaries, Signori Asquini, a professor of commercial law, and Biagi, a labour organiser, are not so conspicuous as to afford a clue to the motives which led to the resignation of Signor Bottai. On the employers' side, there was a certain discontent against Bottai, due to utterances which could be interpreted as too collectivist.

The Government's powers to create compulsory cartels in the iron and steel industries were extended to February 28, 1933, and a committee was appointed to advise before the end of the year as to the best methods of organising the industry. On the other hand, two old compulsory cartels were subjected to severe criticisms. The old "Camera Agrumaria", created at Messina to unify the sale of calcium citrate, had accumulated a stock of 8,500 tons, valued, at current prices, at 20 million lire. The board of directors was accused of maintaining a policy of too high prices and thus stimulating the imports of foreign synthetic citric acid. The board was therefore dissolved, and a new board charged with the invidious task of finding remedies. More complex was the problem of the Consorzio Solfifero Siciliano, a thirty-year-old compulsory cartel for the sale of Sicilian sulphur. The 1923 agreement between Sicilian and American producers for the division of the world's markets did not prevent the gradual decrease of Sicilian sales and the increase of unsold stocks from 5,000 tons in 1928 to 200,000 tons at the present time. The Consorzio, which had advanced the price to producers, was thus saddled with a debt of about 60 million lire, and the industry with a threat of ruinous prices in the event of big stocks being put on the market. The situation could be solved either by the extension of the cartel to those non-Sicilian producers who had in the meantime entered the field, or by a return to free competition. Contrary to the new cartellisation policy, the latter was the preferred solution. The Consorzio was dissolved, producers being free to sell at market prices as from August 1, 1932. To prevent a slump in prices, the present stock will be purchased by the Liquidating Consortium, with the financial aid of the Bank of Sicily and of the Palermo Saving Bank, at the average price of 300 lire per ton. As the sale price cannot possibly cover the purchase price with interest and other costs, the loss

will be borne by the State Exchequer, and for this purpose a yearly sum of six million lire has been inscribed in the Corporation Budget. This is the end of the most important experiment made in compulsory cartellisation of industry.

The reorganisation, by a decree of June 30th, of the stock exchanges puts brokers under a stricter Government supervision, and presidents and members of the boards are in future to be appointed by the Finance Minister. Their activity will be rigidly limited to brokerage, to the exclusion of all jobbing transactions. The right of buyers to claim immediate delivery of securities purchased for end of the month settlement is abolished. The Finance Minister, however, can, in exceptional circumstances and for given securities, grant such a right (the so-called *diritto di sconto*).

218.

ITALY

PRICES – SUGAR BEET AND WINE – BANK AND LIQUIDATIONS

From our Correspondent

Turin, August 15

Even before the Stock Exchanges were closed for the holidays business was very quiet, with no sign of revival. Optimistic prophecies from the United States are greeted hopefully, but wholesale prices continue to fall, going down in the first week of August to 78.7 per cent. of the pre-war level. Hindrances to international trade are bearing their evil fruits: during the first half of 1932 goods carried by sea to and from Italy decreased by 7.65 per cent. Goods carried by railways decreased from 48,615,000 tons in the fiscal year 1930-31 to 40,404,000 tons in 1931-32. Recent agreements between Italy and France increasing the very limited import quotas are therefore welcomed as a sign of possible relaxation.

The rainy spring and summer months, while reducing the wheat yield, promise an abundant beet crop, poor in sugar content, so the associations of beet growers and of sugar makers have agreed to increase by 15 per

218. August 27, 1932, p. 393. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

cent. the quantity of beet which must be purchased by sugar makers. The rest will be used as cattle food. As the alcoholic content of this year's vintage threatens to be low, it was decreed in the last Cabinet Council that the minimum alcoholic degree required from red wines on sale shall be raised from 9 to 10 per cent., and that from white wines from 8 to 9 per cent. It is hoped that many low-content wines will be withdrawn from direct consumption to distillery.

The campaign for the collection of gold has brought the Bank of Italy's reserve from 5,627.9 million lire on March 31 to 5,700.4 on July 31. During the same period the gold exchange reserve decreased from 1,533.6 to 1,390.2 million lire. As, however, the note circulation decreased from 13,871.6 to 13,492.3 million lire, the percentage of the gold cover to circulating notes increased from 40.57 to 43.49 per cent. More interesting, perhaps, are the changes in the discount and advances items from 5,637.9 million lire on March 31 to 6,819.3 on May 31, and 5,974.6 on June 10 and 5,685 millions on July 31. At the same time advances from the Bank to the Liquidations Institute increased by degrees from 1,613.1 million lire on March 31 to 1,789.5 on July 20. This figure ought to have decreased instead at some intermediate date by 800 million lire, which the State Exchequer paid to the Institute to enable it to reduce its debt to the Bank of Italy. The inference is that the reduction has taken place, but at the same date, probably after May 31, the Bank of Italy transferred an equivalent sum from the discount item to the debt of the Institute. Frozen assets remain thus at the same level; and in banking circles the opinion is current that this is not the end of the process of the liquidation of past inflationist errors. Other frozen assets or losses must be transferred from banking and others concerned to the Bank of Italy, and thence to the Liquidations Institute to be amortised in time with State Exchequer or special fiscal grants. The miracle is that so gigantic a process of liquidation, which amounts already to 5 or 6 billion lire, has been carried out without increasing or even with a gradual decrease of the note circulation. It may be said that notes should have decreased even more, or that the process has been possible only through the successful issue of Exchequer bonds; but at all events the winding-up process has gone on, and still continues, successfully, without dislocating the foreign exchanges. In its turn, the stability of the lira has reacted on public psychology, stopping or reducing the export of capital and even provoking not a few capitalists to recall balances formerly held in foreign countries.

219.

ITALY

COTTON AGREEMENT – UNEMPLOYMENT – PRICES – STOCK EXCHANGE

From our Correspondent

Turin, September 5

Great prominence has been given by the daily press to the various agreements which have been reached between employers' and employees' federations, of which the most important refers to the cotton industry. The success is compared rather proudly with the Lancashire strike and references are made to the heavy losses sustained in England by the Trade Unions, the industry and the community at large. The problem in Italy was very similar to that in England. The last collective labour contract was made in 1924. Since then technical conditions have changed and there has been a shifting of labour between individual firms and localities. Employers more alert in the introduction of semi-automatic and automatic looms and of the multiple-loom system, were obliged, in order to attract hands, to increase wages above the collective minimum; while the less enterprising managed to pay reduced wages to hands tied, for one reason or another, to particular places. Workers complained that wages had not increased in proportion to the greater strain and attention necessitated by the diffusion of the multiple-loom system; employers retorted that the 1924 tariff was not flexible enough and did not take sufficient account of the quality of the fibre, the speed of the machinery and the several counts of fabrics woven. Above all the minimum wage guaranteed by the 1924 agreement no longer corresponded to the changed level of prices and the lower cost of living. The new agreement was concluded after many local discussions only through the influence of the central Corporations Department, in prolonged sittings presided over by the Under-Secretary of State, signor Biagi, a former employees' organiser. The agreement relates to some

219. September 17, 1932, pp. 506-507. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. The new collective labour contract in the cotton industry. Unemployment. Reduced railway traveling and week-end trains. A stay to the decrease in the wholesale prices index. The low level of activity of stock exchanges", dated "Turin, September 5, 1932", is kept in the Einaudi archives.

250,000 workers, whose probabilities of getting work are thereby enhanced. It appears that the maximum reduction was fixed at 10 per cent. for wages higher than the contractual basis, and that reasonable terms were reached as regards the multiple-loom system and the equalisation of wages as between different districts. It is an achievement to have been able, under a legislative system which treats strikes and lockouts as penal offences and resolves industrial conflicts by means of compulsory arbitration, to avoid the economic and social loss involved in industrial disputes: in order, however, to allow an impartial appraisal of the practical working of the system, a thorough study into changes of hours, wages and other conditions of labour, with reasons thereof, and consequences on the rate of employment, would be necessary. Such a study is badly needed.

As in other years, after touching its lowest level in June, unemployment has again risen in July:

	Thousands Unemployed			
	1929	1930	1931	1932
January	462	466	723	1,051
June	193	322	574	905
July	202	342	638	931

Another interesting, if somewhat belated index, published by the Corporations Department, taking as a basis (100) the number of hands employed in September, 1926, gives for the end of May of successive years the indices of 94.6 for 1929, 88.6 for 1930, 74.9 for 1931, 65.4 for 1932. The number of hands occupied at the same dates for a number of working hours higher than the normal was 16.4, 12.3, 12.2, 7.7 per cent. of the total, while the number of hands working on short time was 8.3, 23.1, 24.1, 29.5 per cent. Thus both the frequency and the constancy of employment are decreasing.

The State Railways are struggling very hard against the crisis and the growing competition of motor cars. By the introduction of 762 week-end "popular" trains with exceedingly low fares, 590,570 passengers have been carried from June 5th to August 22nd. How far these efforts will check the decline is uncertain. The number of passengers decreased from 112.2 millions in 1928 to 88.4 in 1931, and in the first semester of 1932 the figure was further reduced to 36.6, against 41.7 millions in the corresponding period of 1931.

The index of wholesale prices at last appears to have been checked in its downward course. After decreasing almost uninterruptedly from a yearly average of 654.4 in 1926 (1913=100) to 299.93 in July, in the fourth

week of August the index closed at 299.77, after rising to 300.10 in the third week. It is, however, too slender a basis on which to build hopes of revival in industry and in the stock exchanges. Perhaps largely in a spirit of imitation of the New York boom some movements have been also engineered in the Italian bourses. It is yet too soon to gauge the intrinsic soundness and durability of the change. The daily average of future transactions in fixed interest securities effected in the Italian bourses decreased from 29.4 million lire in 1928 to 15.3 in 1929, 18.3 in 1930, 12.3 in 1931, and 3.9 in the first seven months of 1932. Similar figures for variable dividend securities were: -122.4, 72.6, 37.7, 20.0 and 9. Probably we have reached the bottom of inactivity, but it will presumably take a long time before we go back to anything like the former level; and in the meantime any improvement in quotations threatens to be merely speculative, as it lacks the sound basis of a widespread market.

220.

ITALY

INTEREST REDUCTION – SUPERTAX – COMMERCIAL RETALIATIONS – CARTELLISATION – CROPS

From our Correspondent

Turin, October 3

A most important agreement was reached during August between all ordinary and savings banks under the auspices of the Governor of the Bank of Italy and the Finance Minister. The rate on current accounts, deposits and correspondents' balances was reduced as from October 1st to a maximum of from 2½ to 3 per cent., and on time deposits to 3 to 4 per cent. Signor Olivetti, Secretary to the General Confederation of Industry,

220. October 15, 1932, pp. 688-689. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Banks agreements on reduction of interest rates on deposits. Past trend towards increase of postal deposits. Supertax assessments reinforced. Foreign trade balance surplus", dated "September 19, 1932", and "Italy. Italian retaliations against German, Yugoslavian and French trade restrictions. Cartellisation in sulphur, cotton and beer industry. Wheat record-yield and the problems of self-sufficiency", dated "October 3, 1932", are kept in the Einaudi archives.

states that the agreement aims at putting an end to the unwholesome practice which arose during the war of paying high rates of interest for current and time deposits up to 4, 5 and even $6\frac{1}{2}$ per cent. Banking deposits thus changed from temporary utilisations of uninvested resources to permanent investments of new savings; and banks were forced to incur the risk of investments, with ominous consequences during times of crisis. The reduction of bank interest rates will aid the general policy of freeing banks from the investment business so that they can go back to the time-honoured tradition of current liquid discounts and advances to trade and industry.

This is a sound move, but it is doubtful what its consequences will be in the present mood of savers. Even before the reduction of interest rates a certain shifting of deposits from higher to lower interest paying banks was noticeable. Putting banks in the order of the rates of interest presumably paid, we get the following results:

	Deposits (million lire)		
	On December 31, 1928	On the last available date (April to June, 1932)	Per cent. Increase %
Eight largest ordinary banks	4,695.3	4,789.7	2
Regional banks	3,037.3	3,066.0	0.9
People's banks	1,013.3	1,053.0	3.9
Ordinary savings banks	15,684.8	18,259.3	16.4
Postal savings banks	10,819.4	15,421.7	42.5

The increases in deposits in ordinary and regional banks, which paid the highest rates, were negligible; and even popular banks, many of which erred in a less degree on the same side, increased their deposits by less than 5 per cent. Only savings banks and postal banks markedly increased their holdings. The comparison is not wholly correct, inasmuch as ordinary, regional and popular banks do not put, for fiscal reasons, the greatest part of the sums received under the deposits head, but classify them instead as correspondents' balances; but the figures are significant of the savers' trend in favour of banks which pay low rates.

Investments in Consols, other State securities and securities to bearer enjoyed until to-day a practical exemption from supertax, as fiscal authorities were bound to calculate the income subjected to supertax exclusively by adding incomes already assessed in virtue of taxes on land, houses, industry, professions and other incomes. Incomes from Consols, being exempted from the income tax, could therefore be assessed for supertax purposes only on the basis of voluntary confessions by taxpayers, and such confessions were, as it appears, exceedingly rare. In virtue of a recent de-

cree, fiscal authorities will be able, henceforward, to make supertax assessments on the basis not only of direct taxation, but also of other assumptions, mainly that of the taxpayer's standard of living. As the chain leading from investments in Consols and other "securities to bearer" to supertax assessments is long and loose, it is thought that the new taxation system will not react unfavourably on Consols quotations. The Treasury hopes for an increase in revenue of from 300 to 500 million lire, owing to this change.

Restrictions on the slaughtering of foreign cattle having provoked complaints from export countries, especially from Hungary, Yugoslavia and Roumania, negotiations have been entered into with the interested States. The outcome is that restrictions are revoked, but new duties are imposed. Obstacles to international trade are progressively intensifying. The German restrictions on payments to foreign importers have immediately provoked retaliation by the Italian Government. As soon as the German Government notified their intention not to prolong the validity of current agreements after September 30th, a Decree was issued in virtue of which importers of German goods can make payments to their creditors only through the agency of Italian banks. Banks will grant orders on reichsmark accounts held in Germany to the credit of Italian creditors, thus freeing those frozen credits to the benefits of Italian exporters. If these accounts are not sufficient to allow full payment for German imports to Italy, banks can provide *devisen* to the maximum of 25 per cent. of the sums due. The balance must be paid by the importers and deposited by the bank in a suspense account, without interest, opened by the Exchange Institute. These sums may be disposed of only as far as new accounts to the credit of Italian citizens in Germany can be utilised. Reichsmark transfers on suspense credits into the Institute's fund are held to be legally valid against foreign creditors. Violation of these restrictions renders the offender liable, in addition to the usual sanctions, to a fine equivalent to the full value of the imported goods. On September 22nd another Decree extended the above rules to Yugoslavia. On September 24th the *Official Gazette* published a Decree of September 19th in retaliation against the special turnover tax on foreign imports enacted in France. As the new French tax increases progressively from raw materials to intermediate and finished goods, the Italian retaliatory tax was likewise arranged. At the same time a refund of the internal turnover tax was granted on all Italian goods exported to France. All these measures, while suited to the militant logic now prevalent in international economic relationships, certainly do not pave the way to the next Economic Conference and are not helping the re-establishment of normal conditions in business.

Cartellisation or rationalisation of industry seems to be progressing in a haphazard way. The dissolution of the sulphur consortium seems to have been short-lived. A new voluntary consortium, having as its scope the sale of sulphur produced in Sicily, has already been constituted among all the bigger Sicilian producers. In the cotton industry there are authoritative demands for cartellisation. Roughly the situation may thus be summarised: spindles in existence, 2,860,000 double shift and 3,223,000 single shift; spindles in activity, 1,656,000 and 2,263,000 respectively. Looms are 150,000, of which half are idle. Even before the war 600,000 spindles and 40,000 looms were idle. The addition of 1,000,000 spindles and 30,000 looms during the war and the immediate post-war years made the situation much worse. Reorganisation is now widely regarded as essential in order to save the industry, but opinions differ as to the means. Some people advocate the abolition of double shifts in order to spread employment; while others are in favour of concentration of production in the best equipped mills.

In the beer industry, on the other hand, there are angry protests against the present reservation agreement. In 1926 an agreement was reached by brewers, in which they bound themselves not to encroach upon one another's customers. The retailers sought escape from this dependence, and they took in many instances to selling wine and other beverages and to importing foreign beer. Consumption thus decreased from 1,500,000 hectolitres in 1923-24 to about 400,000 in the current year; a decrease not wholly due to bad times, but said to be partly the result of the discontent of retailers with the brewers' agreement.

Contrary to pessimistic forecasts, Signor Mussolini was able to announce to the last meeting of the Wheat Committee that the wheat crop for 1932 had reached the record figure of 7,515,000 tons, with an average product per hectare of 1.52 tons. The average production for 1909-16 was 4,927,300 tons, with a yield per hectare of 1.04 tons, the corresponding figures for 1919-22 being 4,528,000 and 0.99, and those for 1926-31 6,160,721 and 1.26. Prices, too, are good. Thanks to a 750-lire per ton duty on foreign imports and to a scale of variable proportions of maximum millable foreign wheat, the price, which in August, 1931, was 940 and 1,020 lire per ton for soft and hard wheat respectively, reached in August, 1932, a level of 1,100 and 1,250 lire. Maize production is estimated at 3 million tons, against 2 millions in the past year and an average of 2.27 millions in 1927-31. The yield and prices of cocoons were bad, but the vintage, if somewhat belated, is held to be 15 per cent. over that of past year. The increase in the cereal production is not due to any appreciable in-

crease in the area sown (4,952,00 hectares in 1932, against 4,737,000 in 1870-74 and 5,099,000 in 1905-09), but to better yields: 1.52 tons in 1932, against 0.86 and 0.92 in the above said periods. The self-sufficiency ideal is no longer beyond the realm of realisations, but it may involve a fall in the price to a level wholly unremunerative to agriculturists. To maintain prices at the present level a system of bounties on exports must be evolved, with what reaction on foreign policies it is difficult to foretell.

221.

ITALY

BUDGET – SAVINGS – RAILWAYS – UNEMPLOYMENT

From our Correspondent

Turin, November 1

In past days the Fascist regime has been taking stock of its achievements in the ten years during which it has ruled over Italy. From the economic point of view, the leading idea in public speeches has been that achievements such as roads built or improved, lands reclaimed, harbours enlarged, waterworks and electric plants multiplied, railways electrified, towns beautified have been many and great, and they will in due time bear fruit. In the meantime, people must have faith and face the crisis courageously.

It is, indeed, unfortunate for Fascism, as for any other present Government, that such achievements are apt only to make themselves felt in the long run, while things are very indifferent in the short run. Italian economic indices clearly cannot be very different from those of other countries. Beginning with the State Budget, the period of post-war deficits was succeeded, from 1924-25 to 1929-30, by a series of Budget surpluses; but in 1930-31 a deficit reappeared at 504 million lire, increasing to 4,274 million lire in 1931-32 and to 1,054 million lire in the first quarter of 1932-33.

221. November 5, 1932, pp. 831-832. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Celebrations after the first ten years of the Fascist regime. Long run hoped for achievements and the present crisis. The trend of saving toward public investments. Railway traffic and unemployment", dated "October 15, 1932", is kept in the Einaudi archives.

Hence the public debt, which had decreased from 95,544 million lire at June 30, 1923, to 83,675 million lire at June 30, 1927, increased again to 95,893 million lire at September 30, 1932. As the debt is not wholly dead-weight, but partly productive, it is hoped that in the long run the increase will bring in revenue to cover the interest charge.

Huge sums have lately been voluntarily entrusted to the State, about 6,000 million lire coming from the working and middle classes, eagerly bent on buying Post Office bills. Savers, excepting those who invest in their own houses or lands or businesses, lend exclusively to the State or other public bodies. The Association of Joint Stock Companies, which has just issued its year-book, shows that the amount of deposits and correspondent credits, which at the end of 1929 stood at 32,204 million lire in 278 joint-stock banks, had decreased at the end of 1931 to 27,033 million lire in 225 banks.

Railway goods traffic, a very sensitive index, is going from bad to worse. From over 60 million tons in 1929, it had fallen to 27.6 million tons in the first nine months of 1932, as against 33.6 million tons in the corresponding period of last year. The decrease is to the extent of some two-thirds due to the slump, and may therefore be considered of a temporary character, while the remaining one-third may be attributed to motor transport competition. On October 25th Signor Mussolini opened a new motor road between Turin and Milan, which cost about 125 million lire, a splendid work which will, however, increase the competition against the State railways. Similarly, a magnificent new road between Genoa and Turin and Milan for goods traffic will provide a timely outlet for excessive traffic in Genoa, when it is forthcoming, but in the meantime is proving a source of loss to the railways.

The growth in unemployment seems somewhat checked, the total increasing from 945,972 at the end of August to 949,408 at the end of September, as compared with a rise of from 693,273 to 747,764 in the previous year. The figures relate to unemployed reporting to the employment offices. The number receiving relief is much smaller. Up-to-date figures do not exist, but the latest published point to an increase from a monthly average of 2,395,602 "relief man-days" in 1930 to 4,016,948 in 1931 and 5,492,129 in the first quarter of 1932, corresponding to a yearly expenditure of about 250 million lire – not a large figure, but one to which must be added the relief given by local and co-operative bodies from sums raised by popular subscriptions.

222.

ITALIAN STOCK EXCHANGE CONDITIONS

The low-water mark in the Italian stock exchanges was reached on July 1st, writes our correspondent, when the general index calculated by the Milan Statistical Office (December, 1925=100) touched 39.84. From that date an upward movement began, which culminated early in September, with the general index at 50.28. Quotations afterwards sagged, the movement having spent its force. The rise was unevenly distributed. In the banking group, the Bank of Italy took the lead. Shipping and textile shares were firm, but electrical issues showed a more limited rise. Agricultural and real estate issues were firmer after the collapse of a weak concern, the Società Bonifiche Ferraresi. The improvement failed, however, to interest the investing public. Transactions, if no longer strictly limited to professionals and to the financial groups (which are somewhat overburdened), did not extend beyond the speculative investor. Progress is being made with the financial reconstruction of some large companies. The Italgas, after selling its Milan Gas subsidiary to the Edison Company for 163 million lire, has been able to reimburse onerous banking debts. The Fondi Rustici has sold, for 47 million lire, the "Bonifiche Pontine", a big reclamation enterprise which would have required further huge investments from its embarrassed finances. The public is buying fixed-interest securities to a large extent. A first issue of 100 million lire 5 per cent. bonds of the new Institute Mobiliare Italiano was readily subscribed privately. The rate of interest on new issues of mortgage bonds has been reduced to a maximum of 5 per cent. These are all good omens for the future, but there is no sign of a revival in equity shares.

222. November 5, 1932, p. 847. The article, unsigned, was published in the section: "Investment Notes". Its attribution to Luigi Einaudi is certain because the original manuscript, unentitled but dated "November 1st, 1932", is kept in the Einaudi archives.

223.

ITALY

COLLECTIVE AGREEMENTS – EXTENSIONS TO METAYERS –
COMPROMISE REACHED*From our Correspondent*

Turin, November 13

An important event in the history of the Corporative State was the recent report by Senator Raineri on the extension to *metayers* of the collective contract regulations. Hitherto the principles laid down in the law of April 3, 1926, and in the Labour Charter have been completely accepted. It is a well-known feature of the corporative system that, as strikes and lockouts are prohibited, only one association or federation, local, provincial and national, can be recognised; and that the employers' and employees' associations have power to conclude an agreement on wages, hours and other conditions of labour, which is compulsory for all employers and employees whether they are members or not. This binding power is characteristic of the corporative system, in which trade unions and industrial associations are public bodies in the same sense as the State, or a Province or a Municipality, whose lawful orders must be observed by all citizens concerned.

At first it seemed easy to extend this system to the vast agricultural field governed by the old system of partnership known as *mezzadria*, or *colonia parziaria*, under which the whole product of the land is divided between landowners and *metayers*. A national federation of *metayers* was hurriedly constituted under the ægis of Signor Razza, M. P., a former Socialist leader and the present general secretary of the General Confederation of Agricultural Workers. On the part of the Agriculturists' (Employers) Federation this creation was met by the formation of the special sections of employing proprietors. In a short time 86 collective agreements in 60 provinces were reached and duly made public in the official, provincial and national gazettes.

223. November 19, 1932, p. 932. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

As, however, the *metayer* system was not explicitly contemplated in the 1926 law, a question soon arose as to whether the agreements were compulsory according to the law, and, therefore, legally binding not only on members of the associations, but also on all interested employers and employees. Eventually a certain number of Justices of the Peace decided that they were universally binding. At this point landowners took alarm. What was becoming of the celebrated *metayer* system, which is grounded not on the wage-system, but on full partnership of gains and losses, so that the *metayer*, being a partner, does not grumble about hours of labour, nor insists on fixed minimum wages?

Three years ago, the Government, desiring to settle the matter, presented to the Lower House a Bill extending the 1926 law to *metayer* agreements. The House, in giving assent, added that the collective labour agreements ought to take account of the special limitations and qualifications required by the peculiar nature of the system, but no further progress was recorded after the Bill reached the Senate. Now, after two years of diligent inquiries, Senator Raineri, an ex-Minister of Agriculture, has presented, on behalf of the Senate Committee, his report. The Senate Committee votes for conciliation. The 1926 law will be extended to all partnership agreements in agriculture. Collective labour agreements will be compulsory, as all the other corresponding contracts are in Italy; but they will not contain any regulation relative to hours of labour, wages, rest time, initial probation period or other conditions characteristic of the wages labour contracts. They must respect customs, traditions and economic requirements of the different Italian agricultural regions. In short, collective agreements are not to change the fundamental character of the partnership system, the payment by means of a share in the total product and freedom from limitations in methods of work. If the Senate adopts the Raineri report, the important principle will be affirmed that legislation by agreements between syndicates must be limited to those fields where the wage-system exists.

224.

ITALY

ITALIA SHIPPING COMPANY – STATE AND PRIVATE CONCERNS –
PREFERRED SHARES*From our Correspondent*

Turin, November 28

Much comment has recently been caused by the change in the governing body of the Italia Shipping Company, a combine of the biggest Italian shipping companies (Navigazione Generale Italiana, Lloyd Sabaudo and Cosulich). As usual in combines where representatives of the former companies retain their places on the board of directors, there was, instead of a thorough reorganisation based on strict economies, much overlapping and subterranean rivalry. Suddenly the Genoese shipping world was startled by the news that the Duke of Abruzzi, president of the combine, together with all other directors, including such well-known names as Senator Rolandi Ricci, Biancardi and Signor De La Penne, had resigned, and in their stead a new board had been nominated, the most representative men in it being Marquess Federico Negrotto-Cambiaso, chairman of the Port of Genoa Authority, Rocco Piaggio and Giuseppe Lojacono, respectively as president, vice-present and managing director. As the shareholders were in the dark a minute before the nomination of the new board took place, everyone saw in the change at the helm of the biggest Italian shipping company a true stroke of Mussolini policy, making for economy and strong unity of purpose.

Signor Rocco Piaggio, the present representative of a Genoese dynasty of shipowners, and one of the guiding minds of the new board, is said to be the author of a letter to Professor Cabiati (published in the August issue of *La Riforma Sociale*) in which a strong policy of reduction of the number of existing shipbuilding yards was advocated. This is, indeed, one of the crucial points of the situation. The number of active concerns is too great. Shipbuilding yards, although reduced from the maximum of 30 reached

224. December 17, 1932, pp. 1139-1140. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

during the war to 15, are still far too many, and they must perform work at an excessive cost. The nomination to the Italia board of first-rate men, free from political entanglements, may be the beginning of a policy of deflation in our industrial equipment. What will be the effect of this State intervention remains to be seen. For good or evil, the State is to-day interested in many private concerns, being in some instances their sole shareholder or owner, as, for example, in the Cogne Company (iron mines and metallurgy), the Idria Quicksilver Company, the Agip Oil Company, and the Miliani Paper Company. In other cases the State has an indirect responsibility, through the Istituto di Liquidazioni and other controlling agencies (such as the Sofindit). Signori Olivetti and Vassallo, the general rapporteurs to the Lower House of the State Budget, are much concerned as to the consequences of this State responsibility. They advocate the passing to the Istituto di Liquidazioni of all bad ventures and their winding-up within the shortest possible lapse of time. The granting of a new lease of life to unsound concerns would mean a regrettable use of public money.

Many good but financially embarrassed enterprises, heavily indebted to the banks, are now under the control of financial trusts, created to relieve the banks of their huge frozen assets. The Istituto Mobiliare Italiano (IMI) was to have issued debentures, with the proceeds of which the Sofindit and other similar trusts would have been enabled to pay to the banks the price of the assets bought from them. The success depended on the capacity of the market to absorb big debenture issues. That capacity is certainly not very high. As Signori Olivetti and Vassallo observe, the State Budget deficit alone has absorbed in the fiscal year 1931-32 the sum of 4,274 million lire from the market, and the requirements of the current year will be no less. Owing to the difficulty of converting at once the frozen credits of the banks transferred to the Sofindit and other financial trusts into debentures purchased by the investing public, another way was sought and a recent Cabinet Council approved of a decree authorising the issue by joint stock companies of preferred shares. The agitation thereby created in the stock exchanges may seem strange in other countries where preferred stocks are so popular. In Italy, however, shares having a prior claim to interest (simple or cumulative) or to capital are almost unknown. Moreover, in the present case, the issue of preferred shares, when approved by the Government, will take place without the equity shareholders being given the right to obtain the reimbursement of their capital, a right granted to them by the Commercial Code.

The scope for the issue of preferred shares is clearly the conversion of bank credits bearing high rates of interest into preference shares. The

banks would renounce the frozen credits and acquire a privileged interest in the equity of the indebted concern, these acquiring in their turn an increased elasticity in the handling of their resources. The banks and their financial trusts hope to be able at some future time when the crisis is over to sell the preferred shares to the public. In the meantime the Stock Exchanges were unfavourably affected. Equity or ordinary shares, being the only ones dealt in on the market, were heavily marked down in all cases in which the issue of preferred shares was deemed possible, the market taking the view that the payment of preferred dividends would mean indefinite postponement of dividends on equity shares. It cannot be denied that transformation of fixed-interest debt into preferred shares is the beginning of reorganisation. For the moment, as far as the market is concerned, the change is on paper only. It may be hoped that the present decrease in top-heavy charges of industrial concerns will be followed in better times by increased liquidity for banks and financial trusts.

225.

ITALY

ISTITUTO MOBILIARE – BANK OF ITALY – BUDGET

From our Correspondent

Turin, January 2

The money-market situation remains very much in the forefront of public discussions. A first public issue by the Italian Istituto Mobiliare is taking place from December 27th to January 5th, for an amount of 100 million lire 5 per cent. nine-year debentures, with an issue price of 980 lire. The present head of the institute, Senator Mayer, has not availed himself of the right to make issues guaranteed by the State. These debentures are guaranteed exclusively by a first lien on the assets of the debtors. As Senator Mayer is cautious of advancing money except on very safe margins,

225. January 14, 1933, pp. 74-75. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. The first public issue by the Italian Mobiliar Institute. The Bank of Italy and the liquidation of past over investments. Cost to the State Exchequer of credit interventions. The need for an end to the deficits", dated "Turin, January 2, 1933", is kept in the Einaudi archives.

this issue will be surely well received. Critics observe that the big original programme of the Institute can thus be realised only in the very long run, as first-class guarantees are difficult to find anywhere. What, then, will happen to the frozen bank credits to industry, which it was hoped to unload on the shoulders of the Institute with the aid of the State guarantee? A notable part of these frozen assets has been transferred in the meantime to the Bank of Italy. From December 31, 1927 (when the lira was stabilised), to December 20, 1932, the note issue, as a consequence of the reduction of prices and trade, was reduced from 12.1 to 7.2 milliard lire. Other items in the bank's balance sheet did not change at all or even increased; discounts and advances rose from 5.5 to 6 milliard lire. As this growth seems incompatible with the restriction of business, Signor Mazzucchelli's suggestion seems plausible, that perhaps two-thirds of these 6 milliards are not commercial but financial bills -i.e., frozen credits taken by the bank of issue to prevent undesirable developments of the crisis. Signor Mazzucchelli estimates that the cost to the public exchequer or various aids to credit has amounted from 1923 to 1932 to a sum already paid of $3\frac{1}{4}$ milliard lire, to which must be added 5 milliard lire in course of liquidation. Clearly, Senator Mayer prefers to keep the new Institute aloof from any such entanglements with the past.

The programme of liquidating past over-investment remains unsolved. On December 27th there took place at Milan the shareholders' meeting of the Unione Esercizi Elettrici Company, perhaps a typical example of many similar cases. On a total of 1,015 million lire on the liabilities side, the capital and reserves amount to 392.3 million lire. The burden of interest on the remaining part (mostly debts to third parties) reduced the net income to a quarter million lire, an insignificant sum in comparison with a working capital of nearly 400 million lire. If industry could be financially reorganised so that the burden of fixed interest debts became less crushing, the worst of the crisis could be said to be over. For the present investors subscribe heavily only to public issues. The Milan Municipality in a few hours closed a subscription to a 30 millions 5 per cent, one-year bond issue.

The floating debt of the State rose on November 30th to 7,212 million lire, a remarkable figure, mostly originating out of small deposits at the postal savings banks. Thanks to the small saver, the State Exchequer is able to keep a current deposit at the Bank of Italy of 3 milliard lire, and in its turn the Bank of Italy is able to make the above discounts and advances on financial paper, without increasing the note issue. The experience of 1893-98 is repeating itself again; and as in 1905 the experience was closed with

great success and the State was able to reduce by free conversion the interest on public debt to $3\frac{1}{2}$ per cent., we may hope that in a few years the present burden of frozen assets which is weighing on the Bank of Italy will be liquidated, and the State will then be in a position to make a second great public-debt conversion. The Government has paved the way by a solemn declaration that no forced conversion is contemplated. The next steps should be, firstly, the liquidation, by a funding operation, of the consequences of past credit errors, and, secondly, the restoring of the budget balance.

After a deficit of 504 and 4,274 million lire in the last two fiscal years (1930-31 and 1931-32) respectively, the current year's outlook is rather pessimistic again: the estimated deficit in the first five months (July-November) being 1,785 millions against 1,381 millions in the corresponding period of last year. The budget estimates recently approved by the Cabinet for 1933-34 close with an estimated deficit of 2,909 million lire, which, if it is not underestimated, constitutes an improvement. Internal savings are able for the time being to fill the gap between revenue and expenditure. But it is imperative that in future the gap shall be filled by restoring the balance, before the sources of the savings are dried up – not an impossible task, but one that requires to be earnestly taken up at once.

226.

THE ITALIAN BANK RATE

The reduction of the official rate of discount announced on January 7th, writes our Turin correspondent, did not take the market altogether by surprise, but the extent of the reduction from 5 per cent. to 4 per cent. was unforeseen. The last time Italy enjoyed the blessing of so low an official "general" rate of discount was in 1881; and only in 1884 and 1886 was the rate fixed so low as $4\frac{1}{2}$ per cent. Otherwise the rate never fell under 5 per cent., which was traditionally regarded as the lowest practicable rate. This traditional 5 per cent. rate was, in fact, modified by various special rates for

226. January 21, 1933, p. 117. The article, unsigned, was published in the section: "Notes of the Week". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Reduction of the official rate of discount. A record bottom level for over half-a-century. Rumoured consequences", dated "Turin, January 15", is kept in the Einaudi archives.

special purposes, but recent practice has not been favourable to these. In the meantime a striking rise has taken place in Government securities. The 5 per cent. Consols closed on January 14th as high as 85.85. More sensational has been the progress of the old 3½ per cent. Rentes, which now stand at 80.15. The steady reduction of the margin between the 5 and 3½ per cent. prices has fired the imagination of the public, and rumours are current of a contemplated conversion of 5 per cent. Consols into 3½ per cent. Rentes. There cannot be any talk of a forced conversion, as there has been an authoritative denial of any such intention, nor is early redemption possible, since the Government cannot offer reimbursement of the nominal 100 lire capital until after December 31, 1936. This does not exclude the possibility of the Government offering holders the free option of exchanging 5 per cent. stock convertible after 1936 for 3½ per cent. assured for a much longer time against conversion. If the present small margin between 5 and 3½ per cent. Consols were further reduced such an operation might be successful.

227.

ITALY

NEW INSTITUTE FOR INDUSTRIAL RECONSTRUCTION – LIQUIDATION OF
FROZEN ASSETS – BOURSE HOPES

From our Correspondent

Turin, January 29, 1933

The market was again taken by surprise when on Sunday the 22nd it was announced that the Cabinet had approved the creation of a new Institute for industrial reconstruction, to be known as I.R.I. (Istituto di Ricostruzione Industriale). The new Institute, following the Italian Mobiliar Institute (I.M.I.) is a step towards the speedier liquidation of the frozen assets of the war and post-war period (1915-1925). The successive stages of the

227. February 4, 1933, pp. 239-240. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. The creation of a new Institute for Industrial Reconstruction. Past stages of the frozen assets winding-up process. The new step. Hopes of Bourses", dated "Turin, January 29", is kept in the Einaudi archives.

winding-up process may be summarised as follows: 1) When, in the immediate post-war years, the salvage of two big banks (Banca Italiana di Sconto and Banco di Roma) became urgent, a special section of an already existing Consortium for advances on industrial securities, financed by the (then) three Banks of issue, was given this difficult task. From its inception until November, 1926, this section took charge of 4,381 million lire of bad or doubtful assets, sold 1,017 millions of them, and received from the State or the Bank of Italy a grant of 1,466 million lire, the liabilities to the Bank of Italy being eventually reduced to 1,928 million lire. 2) A decree of November 20, 1926, created an autonomous Liquidations Institute (Istituto di Liquidazioni), which took over the assets and liabilities of the special section. The Institute continued the winding-up process successfully, reducing net liabilities to the Bank of Italy by the end of 1930 to 626 million lire. But during 1931 and 1932 the necessity for further alleviation of the banking situation became apparent. Notwithstanding a free gift from the State Treasury of 1,800 million lire, the liabilities of the Institute of Liquidations towards the Bank of Italy increased to 1,931 million lire on December 20, 1932. 3) The creation, on November 9, 1931, of the I.M.I. did not change the situation. Under the prudent chairmanship of Senator Mayer, the Institute only took over assets of the very first order. Issues of debentures were therefore limited to 200 million lire, to enable the Institute to grant amply guaranteed loans to prosperous or re-organised concerns. If adhered to, the present programme of the I.M.I. will in due course create a current market for its debentures, which will become an attractive investment for careful investors, and will provide a continuous source of credit for solid industrialists. Clearly, however, such a programme is incompatible with a rapid process of liquidation of frozen banking and industrial assets. 4) This latter can be better carried out by the I.R.I. The new Institute will be divided into two sections. The second section called "section for industrial reorganisation" (*sezione smobilizzi industriali*) will take over all assets and liabilities of the Liquidations Institute, now to be suppressed, thus freeing the Bank of Italy of all responsibility on that account. The section will continue to receive until November 31, 1940, all revenues heretofore received by the Liquidations Institute: *viz.*, the annual subsidy of 200 million lire from the State Treasury, three-fourths of the tax on Bank of Italy notes and the Bank of Italy's profits exceeding 60 lire per share. An additional annual subsidy of 85 million lire for 20 years and large tax exemptions are granted by the State. Losses and profits will be paid or received by the State exchequer. The section is authorised to sell its rights to the State subsidies and the Consortium for Public Work Credit is authorised to buy them. Thus the State is enabled

to take over from banks or industrial concerns all frozen assets which are a cause of embarrassment in their operations.

Less important, in comparison, is the first section called "section for industrial financing" (*sezione finanziamenti industriali*). The section has a capital of 100 million lire, subscribed by the Deposits and Loans State Fund, the Social Insurance Fund and the National Insurance Institute. Whereas I.M.I. can make advances and loans to industry only within the 10 years limit, the first section of I.R.I. will grant loans for longer terms and is therefore authorised to issue debentures falling due not earlier than 15 nor later than 20 years. In cases of exceptional public interest, the State guarantee may be granted to these debentures. Signor Alberto Beneduce has been appointed first chairman of I.R.I. The news of the creation of the new Institute and of the appointment of Signor Beneduce to the chairmanship was greeted with enthusiasm by the Bourses. Financial circles hope that he will speed up the transfer process of frozen assets to the I.R.I., thus giving elasticity to the market.

The variable dividend securities Index (Milan) was already on the up grade, as the general index had risen from the low level of 39.84 on July 1, 1932 (December, 1925=100) to 47.41 on December 3, 1932, and further to 50.50 on January 21, 1933. A further rise was recorded after the I.R.I. announcement. The Bank of Italy's shares rose, between January 21 and 28, from 1,603 to 1,665, Banca Commerciale from 1,036 to 1,055, Navigazione Generale Italiana from 119 to 149, Snia Viscosa from 159 to 175, Fiat from 197 to 219, Edison (Electricity) from 504 to 520, Pirelli from 679 to 696. The investing public, however, remains shy, and is confining purchases mainly to Treasury bonds, Consols, and Municipal and Mortgage-Funds Debentures. Nine Years 5 per cent. Premium State Bonds (1941) are selling at 102.70, which is no small achievement.

228.

ITALY

FOREIGN TRADE. — The slump in foreign trade continued in 1932; imports fell to 38.7 per cent. of the 1929 figure and exports to 45.6 per cent.

228. February 18, 1933, pp. 15-16. The article, unsigned, was published in the supplement *The Economist. Commercial history & Review of 1932*. Its attribution to Luigi Einaudi is certain because the original manuscript, without date but entitled "Italy", is kept in the Einaudi archives.

According to the indices of the General Confederation of Industry (1925=100), the quantity of imports was reduced to 83.7 in the first eight months of 1932 and of exports to 84.3, while prices went down respectively to 39.1 and 43.4. The deficit in the commercial balance is reduced to 1,451 million lire; this is slightly higher than in 1931, but, although the balance of payments is increased by interest on debts, it appears to be amply compensated by the expenditure of foreign travellers and by other invisible exports.

CROPS. – Weather was exceptionally favourable to agriculture, which registered bumper record crops. A rigid system of protective duties and of quotas for millers kept the wheat prices above the 1,000 lire per ton level; premiums on exports and a compulsory consortium likewise maintained rice at the remunerative level of 550-600 lire. In other fields those devices were not available; and therefore agriculturists had a varied experience according as they raised cereals, rice and other protected products, or cattle, wine, cocoons, fruit and other exportable goods. The great mass of small and medium-sized agriculturists, who have little need to sell, fared well in this abundant year.

INDUSTRY. – Almost all industries underwent a decrease of production. Taking into account the ending of reparation imports, the decrease in the consumption of coal may be estimated at about 2,300,000 tons against 1931 and at 5,800,000 tons against 1929. The increase in the electric power produced in 1932 over 1931 is negligible, and was only 4 per cent. over 1929. Building permits, perhaps the most sensitive index of industrial prospects, are diminishing at a slower pace than in past years, only because they appear to have reached the lowest possible level.

MONEY MARKET, CAPITAL ISSUES. – The note circulation again decreased; but the need of financing a big sum of frozen banking assets prevented it from falling to the level appropriate to the much-reduced volume of business. Clearings and share turnover have fallen much more than the note circulation. There has, again this year, been a mysterious reduction of the foreign exchange reserve, not counterbalanced by the increase of the gold reserve, in the face of a favourable balance of international payments. A small continuous rivulet of capital export may be taking place. Public issues by joint-stock companies are negative, losses of capital exceeding new issues.

PUBLIC FINANCE. – The fiscal year ending June 30, 1932, closed with a deficit of 4,274 million lire, against a deficit of 504 millions in 1930-31. In the second half of 1932 the deficit was 2,041 million lire, against 1,669 in the corresponding period of 1931. The deficits are the effect of a decrease in the revenue (from 20,387 to 19,033 million lire between the two last complete fiscal years and from 8,895 to 8,818 million lire between the six months of 1931 and the corresponding period of 1932) and of increases in the expenditure (from 20,891 to 23,308 and from 10,564 to 10,859 respectively). In Italy deficits are partly prospective – that is to say, they take account of expenses which are yet to be made. The cash outgoings exceed incomings by only 408 million lire in the fiscal year 1930-31 and by 3,011 millions in 1931-32; and the excess was only 40 millions in the second semester of 1932. This means that in many cases effective expenditure already decided upon and inscribed in the budget has been postponed.

	1930	1931	1932
Trade (million lire):			
Imports	17,325	11,643	8,247
Exports	12,115	10,209	6,796
Agricultural production (1,000 tons):			
Wheat	5,717	6,662	7,515
Maize (spring)	2,850	1,830	2,808
Potatoes	1,954	1,964	2,824
Sugar beet	3,049	2,473	2,494
Industrial output (1,000 tons):			
Steel	1,774	1,453	1,391
Rayon, tons (monthly average)	2,511	2,882	2,633
Silk (natural), tons (monthly average)	516	449	241
Industrial productions:			
Building permits in 17 cities (number of rooms)	149,740	92,506	74,051
Electric power (hydro- and thermo-electric, produced and imported) mill. kw.	10,189	10,080	9,280 *
Imports of coal (1,000 tons):			
Commercial	10,524	9,615	8,025 *
Consumption of cotton in years ending July 31 st (1,000 bales)	1,001	788	793
Transport:			
State railways:			
Commercial goods loaded (1,000 tons)	53,599	44,190	37,054
Number of passengers carried (1,000)	104,881	88,433	74,362 *
Traffic receipts (million lire)	4,268	3,455	3,072
Goods entered and sent by sea (1,000 tons)	35,627	32,436	30,373
Index of wholesale prices, Milan (1913=10):			
Pre-war gold lire	111.6	92.4	83.1
Current lire	411.0	341.6	309.9
Cost of living, national (first half 1914=100)	430.5	388.7	370.3
Wages (July, 1928, to June, 1929=100), end December	95.5	89.49	85.97 **
Unemployed, end December (1,000)	642.2	982.73	1,129.77

	1930	1931	1932
Money market, finance (end of December, and million lire, when not otherwise stated):			
Note circulation	15,680	14,295	13,672
Gold reserve	5,297	5,626	5,839
Foreign exchange reserve	4,327	2,170	1,304
Stock exchanges (december, 1925=100):			
Index of 34 leading shares	66.4	50.1	48.1
Index of 14 Milan debentures	102	103.7	107.5
Clearings (total of year)	664,445	607,928	479,352
Bankruptcies (total of year)	13,606	17,796	20,202
State revenue (year ending June 30)	19,838	20,387	19,033
State expenditure (year ending June 30)	19,668	20,891	23,308
Public internal debt	88,102	91,442	95,572

* Eleven months. ** End of November.

229.

ITALY

RECONSTRUCTION LOAN – TAX REDUCTIONS EXPERIMENTS

From our Correspondent

Turin, February 12

The formation of the Institute for Industrial Reconstruction (I.R.I.) was quickly followed by the announcement of a loan of one milliard lire, in 4½ per cent. 500-lire bonds offered at 455 lire, redeemable in 20 years, exempt from all taxes, present and future, and enjoying the status of trustee securities. The issue is made by the Public Works Credit Consortium, which is a State institution and is guaranteed, as are all other issues of the Consortium, by the State. In addition, the bonds are specially guaranteed by the sale from the I.R.I. to the Consortium of part of the 20-year 85 million annuity granted by the State to the I.R.I. The yield works out at 5.66 per cent., to which must be added the annual value of 5 million lire premiums which will be granted, mostly in amounts of one million lire, for the first five years of the currency of the bonds, to the first numbers of the bonds yearly drawn for reimbursement. As it was the first experiment in a 4½ per

229. February 25, 1933, p. 409. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain according to Graham Hutton.

cent. issue since 1915 the results were awaited with interest. The subscription, which was guaranteed by a banking consortium, headed by the Bank of Italy, was opened on February 6th and closed on the evening of February 7th, when subscriptions reached the sum of 1,239,795,000 lire. The excess will be reimbursed, small subscriptions being preferred in the allotment.

This is presumably the first of a series of public issues. The needs of banks and industrial concerns are not limited to the 900 million lire net yield of the loan. Liabilities of the Liquidations Institute transferred to I.R.I. amount to 1,890 million lire; and rediscounts by the Bank of Italy which need to be "unfrozen" probably form a large proportion of the 5,560 million lire discounts and advances figure of the Bank. Moreover, the State budget deficit for 1932-33 will probably not be less than the 4,500 millions of last year, and must be financed somehow. As, however, savers are shy of all other investments, public issues will be easily subscribed. The only limit to public issues is therefore the amount of annual savings; and, in their turn, savings are mainly limited by taxation, the burden of which on the reduced national income is growing heavier. After many successive increases, a beginning is being made toward improving the yield of taxes by reduction of their rates. As an experimental step in that direction, the price of a special type of State monopoly cigarettes will be reduced in thirteen cities on Sunday, February 26, and for that day only, from 20 to 15 centimes each. In the event of big enough sales, the experiment may be repeated.

Another reduction has been made in the rate of the income tax, from 9 to 8 per cent., on salaries, pensions and other incomes of employees, exclusive of public employees, which were already taxed at the 8 per cent. rate. The Exchequer hope to receive a greatly enhanced revenue, as all employers will now be obliged to send to the revenue office the complete list of their individual employees, with the precise amount of all sums paid to them in the preceding year. Heretofore, employers contracted out by paying the tax on a lump sum instead of on the individual exact amount of salaries; and the tax on employees was considered as an overhead cost of employers. Thenceforward employees will be obliged to refund the tax paid on their account by employers; but they will have the right to an increase in the salary corresponding to part of the amount. In time the new system will work well, but the change in the assessment system will mean a definite increase in the burden of taxation on employers and employees alike. The transition should perhaps have been eased by a bigger reduction of the rate.

230.

ITALY

STOCK EXCHANGE – INDUSTRIAL INDICES – SILK – RICE

From our Correspondent

Turin, March 6

The amount of business done on the Stock Exchanges in January was in excess of 1 billion lire, a record since March, 1931; and three-fourths of the total refers to fixed-interest securities, the record in this case dating back to May, 1930. The upward movement continued until the beginning of February. According to the new index number compiled by the Milan financial paper *Borsa*, the average price of 50 representative variable dividend securities increased from the basis 100 for December, 1932, to a maximum of 108.20 in the week ended February 4th, to react afterwards gradually to 104.76 in the week ended February 25th. Even lower prices ruled these last days. Balance sheets of big joint-stock companies which are forthcoming this month make mixed reading. Snia-Viscosa (rayon) keeps a formidable cash or liquid reserve of 128 million lire (against 152.1 at the end of 1931) and a State or other debenture reserve of 78.2 millions, and has earned 22.3 million lire net, against 23.5 millions in the preceding year. The Fiat Company on the contrary has, for the second time, made no net profit, so that, if a dividend is declared, it will have to come out of reserves. Many dividends will be decreased, and it appears that the Banca Commerciale Italiana will distribute 25 lire (5 per cent.), as against 40 for 1931, 60 for 1930 and 65 for 1929; Credito Italiano will distribute 25 lire, against 30, 40 and 40.

The number of unemployed was 1,225,470 at the end of January, 1933; the highest previous figure was 1,147,945 in February, 1932. The total number of men employed in December, 1932, was 66.8 per cent. of that in the first week of September, 1926. International commerce is waning: imports in January, 1933, were 668.7 million lire, against 731.9 millions and 1,025.3 millions for 1932 and 1931; and exports 454 millions, against 525.3 millions and 692.2 millions. Cars loaded on the State Railways

230. March 18, 1933, pp. 583-584. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain according to Graham Hutton.

amounted in January, 1933, to 362,000, against 399,000 in January, 1932, and the goods loaded to 3 million tons, against 3.4 millions. Travellers decreased from 6.7 millions in January, 1931, to 6 millions in 1932 and 5.7 millions in 1933. On the other hand, the downward movement in navigation seems to have been checked; 2,467,410 tons were loaded and unloaded in January, 1933, against 2,428,341 in January, 1932. The competition of motor cars only partly accounts for the decrease in the railway traffic; the number of motor cars, motor cycles, autobuses, autocars, etc., after increasing from 340,136 at the end of 1929 to 385,855 at the end of 1930, increased only to 437,149 at September 30, 1932. Notwithstanding the success of the smallest Fiat model, motor cars are still a luxury in Italy, as the high tariff doubles the price paid by consumers. High protection and high taxation obstruct production in too many cases. Sugar stocks increased from 105,000 tons in July 31, 1931, to 127,800 in July, 1932, and not the least important reason was the crushing weight of taxation, amounting to 4 lire per kilogram, and the 165 lire protective duty, which together kept down the consumption to 7.54 kg. per head. An experiment made in 1924 of reducing taxation from 4 lire to 1 lira per kg. for sugar used for marmalade and other preserved fruits resulted in a 30-fold increase of consumption. Chocolate manufacturers claim that a similar reduction in the tax on sugar used in their industry would greatly increase the consumption of chocolate, which is at present only 0.175 kg. yearly per head in Italy, against 1.316 kg. in England and 1.023 kg. in France.

The situation of cocoon producers and silk spinners and manufacturers is uniformly bad. The Government paid in 1932, and will again pay in 1933, a premium of 1 lira per kg. of fresh cocoons to maintain the cultivation of mulberry trees, which farmers threaten to abandon, as the sale of cocoons at the price of 3.50 lire per kg. – corresponding to less than 1 pre-war lira, when a price of 2-2.50 lire per kg. was deemed before 1914 merely sufficient to cover costs – means a dead loss. The position of silk spinners is no better, as the current price of 52.50 lire per kg. of raw silk is about a third of the pre-war price. The number of active spinning mills at the end of December, 1932, was only 306, out of a total of 779 existent; in the weaving section, 13,702 looms only are active out of a total of 24,609. As the number of active mills is fast decreasing, spinners are demanding a bounty like that granted in France, but French production is very much less than the Italian, and the burden might easily become crushing to the Italian Exchequer. The system of export bounties has already broken down in the case of rice, the price of which has fallen from about 750-

800 lire last autumn to 500 lire per ton. The area under rice will have to be restricted to that sufficient to provide for home consumption. Beet-growers and sugar producers have at last agreed about the area to be devoted to beet cultivation, so that the unsold sugar stocks may not further increase.

231.

ITALY

GOLD RESERVES – RESTRICTION OF NOTE ISSUE – CHANGES AT THE BANKS –
COMPANY MEETINGS

From our Correspondent

Turin, March 27

The shock of the United States banking crisis was well supported by Italian bourses and markets. Perhaps the most visible effect was an acceleration in the change from the gold-exchange system to a gold reserve, which was already in view. The lowest figure of 7,074.8 million lire for total reserves of the Bank of Italy on July 10, 1932 (5,676.4 gold and 1,398.4 *devisen*), had increased to 7,168.8 on February 10, 1933 (5,865.2 gold and 1,303.6 *devisen*). Suddenly the change from *devisen* to gold was made more rapid: on February 20th the *devisen* went down to 1,238.8, and on March 10th to 912.8 million lire. In the meanwhile gold increased from 5,865.2 on February 10th to 5,939.3 on February 20th, to increase further to 6,225.4 on March 10th. Total reserves are not much changed at 7,138.2 millions.

The seasonal decrease in the note circulation, which in the past year reduced the amount of notes issued from 14,294.8 million lire on December 31, 1931, to 12,904.2 on May 20th (minimum 12,650.8 on June 20th), is at present somewhat anticipated. Beginning at L. 13,672 million on December 31, 1932, the circulation went already on March 10th below the 13 milliard water-mark, at 12,913.5 million lire.

Markets, if not buoyant, are more firm than of late, quotations going down more gently: after the fall from 108.20 in the last week of January

231. April 15, 1933, pp. 809-810. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain according to Graham Hutton.

to 104.76 in the last week of February, the average – according to the new *Borsa* index – for the week from March 6th to March 11th was 103.54. In some sections, such as iron and metal, chemical, real estate, food, navigation, and miscellaneous securities there was a slight rise.

The news of the month which has received most comment is the change of the men at the helm of the Banca Commerciale Italiana. The general manager (*amministratore delegato*), Signor Giuseppe Toeplitz, retires. A man of exceptional ability, he guided the bank through many difficulties. Age compels him to retire; but he remains on the Board of Directors and will probably be elected Vice-President (the President is Senator Conti) in a reduced Board of only eleven members. Signor Toeplitz will be succeeded by Signori Michelangelo Faconi, an experienced high official of the Bank, and Raffaele Mattioli, a young man of 38 years of age, rapidly rising from the private secretaryship of Signor Toeplitz to the leadership of the Bank. Along with Signor Beneduce, the head of the Institute of Industrial Reconstruction and of various other public financial bodies, Signor Mattioli is now one of the outstanding new men in Italian high finance.

Reports of shareholders' meetings offer better reading than might have been surmised. The Snia-Viscosa report reveals a percentage of loss due to insolvencies of only 0.28 per cent. in 1932, a reduction of frozen credits from 35 million lire on September 30, 1931, to 1.7 millions on December 31, 1932; a reduction of salaries and other expenses of the central office from 2,700,000 lire in 1929 to 890,000 in 1932. The Lombard Electricity, as all other electricity companies, was obliged to increase its sales for less profitable uses, and 251 million Kw. out of a total of 498.3 million Kw. sold come within this category. Still, even in these circumstances a net profit was obtained of 19.1 million lire, and a dividend of 4 per cent. was declared. In the textile field one of the oldest wool-weavers, the Lanificio Rossi, shows a big reduction in the deficit, so that a dividend of 6.66 per cent. can be distributed. Reduction of costs, elimination of doubtful credits, profitable sales at low prices, these are good omens. However rare, good reports of this sort are in March, 1933, more frequent than in March, 1932. To some extent they counterbalance the ever-increasing number of unemployed, which reached at the end of February 1,229,387, a new record, against 1,147,945 a year ago.

232.

ITALY

CENTRAL BANK RESERVES – INDUSTRIAL PROFITS

From our Correspondent

Turin, April 20

The end of March and the beginning of April are marked by balance sheets and reports to company shareholders. The report made on March 31st by the Governor of the Bank of Italy, Signor Azzolini, shows that during 1932 the gold in the vaults of the bank increased by 213,200,000 lire, from 5,626,300,000 to 5,839,500,000. This increase was wholly due to purchases of gold in the internal market, no part of the gold-*devisen* having been transformed during the same year into gold. The purchases – of gold coins and of trinkets and other used gold apparel – continued after December 31st, reaching, on March 25th, the total amount of 312,300,000,000 lire. In 1932 the gold-*devisen* reserve decreased by 652,500,000 lire, against a decrease of 1,847,000,000 in 1931. The reason for the decrease is not evident, as the current balance of international payments seems not to have closed with so remarkable a deficit. Probably Italian investors managed somehow to repurchase, at low prices, a part of the securities sold or issued in the New York market before 1929. To the question frequently asked in financial circles – what part of the 1,304,500,000 lire of the gold-*devisen* reserve is really existent, and what part of it has been swallowed up by the losses on the sterling securities held when Great Britain went off gold – the only reply is that the losses on sterling securities will be wholly amortised before December 31, 1940, with the proceeds 1) of profits on the sale of other gold securities, and 2) of part of the reserves of the National Institute for foreign exchanges, a war body whose budgets are not public, and which apparently has been able to make profits out of its transactions. “Thus ends”, Signor Azzolini says, “the gold-exchange system, although the system can yet render important services to the world. But its permanence would only be

232. May 6, 1933, p. 965. The article, unsigned, was published in the section: “Overseas Correspondence”. Its attribution to Luigi Einaudi is certain according to Graham Hutton.

possible if central banks which hold the gold reserves of other countries are managed with a view to keeping intact the convertibility of their notes into gold". Therefore, the Governor concludes, the Bank of Italy in the first quarter of 1933 has sold an important quota of their gold foreign securities, reducing them further to 801,900,000 lire on March 31, 1933.

The section of the report which discusses the industrial situation is not encouraging. The silk industry, for instance, is increasingly subject in foreign markets to Japanese competition, favoured by low wages and by the depreciation of the yen. To save mulberry trees threatened with destruction by peasants tired of receiving prices greatly lower than the worst-paid in the whole century after the Napoleonic Wars, the Government granted in 1932 a premium of 1 lira per kg. of cocoons sold, and the premium will also be paid in 1933. Moreover, a decree dated March 20, 1933, grants an export premium up to June 15, 1933, of from 5 to 8 lire per kg. of reeled silk made with 1932 Italian cocoons. In an interesting debate with Professor Cabiati in the current April issue of *La Riforma Sociale*, Signor Giretti, a former M. P. and a silk spinner, observes that only 306 out of 779 silk spinning mills were operating on December 24, 1932, and that at present only six out of a total of thirty-six in the Friuli and ten out of fifty in Piedmont are operating.

A statistical inquiry undertaken by the *Borsa* newspaper gives the financial results of 307 joint-stock companies which have closed their yearly account after June 30, 1932.

(000's omitted.)

	Total Capital	Profits	Losses
1929	14,061,500	1,537,800	14,600
1930	15,066,200	1,365,100	991,300
1931	14,353,600	1,051,700	391,600
1932	14,515,300	847,000	473,400

The big loss in 1930 was due to the reorganisation of Snia Viscosa.

233.

ITALY

GOLD STANDARD — NEW TARIFF POWERS — SHRINKING TRADE

From our Correspondent

Turin, May 7

The immediate effects of the dollar crisis in Italy were that Stock Exchange operators, who after September 20, 1931, hoped or thought that the lira would follow the pound sterling, at the legal parity of 93 to 1, hoped or thought now that the lira would remain linked to the dollar at the parity of 19 to 1. There was a certain apparent foundation to their surmise, because in one of the decrees concerning stabilisation the parity of 19 to 1 was stated as the basis for the fixation of the gold points between which the Bank of Italy was bound to sell foreign exchanges. A short-lived boomlet was therefore staged on this slight foundation. The *Borsa* number index of variable dividend securities, which had fallen from 108.20 in the fifth week of the year to 100.32 in the fifteenth, rose to 101.72 in the sixteenth and to 103.82 in the seventeenth week (from April 24th to April 29th), continuing to go up until Thursday, May 4. But it was soon apparent that Government declined to be drawn into the inflationist policy. Authoritative statements explained that the 19 to 1 parity was subordinated to the major principle that the lira was equivalent to a certain fixed weight of gold, and that no intention was entertained of departing from the principle. A flood of sales appeared on Friday, the week closing weaker.

The *communiqué* on the results of the conversations between President Roosevelt and the Italian Finance Minister, Signor Jung, differs from the Roosevelt-MacDonald announcement mainly in a variation of emphasis. The Italo-American announcement says that both statesmen "think it necessary to re-establish a fixed measure of the value of money in the world, the said measure being gold". The statement is interpreted by the Press here as a declaration that Italy will maintain the gold standard at the present parity. Less emphasis is put in the Italo-American than the Anglo-American statement on the necessity of an increase in the general level

233. May 20, 1933, p. 1076. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain according to Graham Hutton.

of commodity prices, and more on public works as a means to cure unemployment. The silver problem seems not even to have been discussed.

Of greater importance, in view of what is perhaps the more urgent task of the Conference, is a decree published in the *Official Gazette* of May 4th, which authorises the Government to increase Customs duties. In cases of goods coming from countries which put special or differential duties against Italian goods or otherwise restrict Italian imports or payment of them, the Government may decree a countervailing duty up to 50 per cent. of the general and *ad valorem* existing duties. If goods are now duty-free, the countervailing duty shall be 25 per cent. *ad valorem*. In case of countries with which no commercial treaty exists, the general duties, including *ad valorem* duties, shall be increased by 20 per cent. for raw materials, 30 per cent. for foods, live animals and half-finished goods, and 40 per cent. for finished goods. Free goods will be taxed with a 20 per cent. *ad valorem* duty. Special exemptions can be granted in general or within stated quotas.

Even before these enactments Italian foreign trade was still shrinking. The excess of imports over exports in the first quarter of 1933 is only 429 million lire, against 526.2 millions in the same quarter of 1932, which was in its turn less than in the prosperity years from 1922 to 1925, when the yearly excess was from 4 to 5 billion lire. But the reduction is the result of a contraction of international trade, imports going down from 2,205 to 1,931.8 million lire and exports from 1,678.9 to 1,502.8 million lire between the first quarter of 1932 and 1933. Internal trade is likewise shrinking. The deficit in the State Railways will not exceed 650 million lire, against 198 million lire in 1931-32 and 10 millions surplus in 1930-31 (or, as was corrected for strict comparability's sake by Professor Repaci in the last issue of *La Riforma Sociale*, against a 475 million lire deficit in 1932-33). The electrification of the railways is being carried out, and from the present 2,240 kilometres is designed to cover eventually 6,605 kilometres, or 41 per cent. of the total railway mileage, with 60 per cent. of the total traffic. In the meantime lesser lines are dismantled. The suppression of 512 kilometres of extra-urban tramways lines has been decided on in the past four years, and another 191 kilometres further will shortly give way to the motor services.

234.

ITALY

THE "CORPORATIVE" STATE – THE DUCE'S ECONOMIC POWERS

From our Correspondent

Turin, May 21

Hitlerism in Germany and Rooseveltism in the United States are hailed here by the Press as a proof that the world is rapidly evolving toward a dictatorial centralised government of industry. Some misgivings are felt about the motives of America's abandonment of the gold standard, but the extraordinary powers granted to the President for the regulation of wages, prices, competition, limitation of output, etc., are looked upon as a typical case of extension of the "corporative" idea.

"Corporativism", in the land of its birth, is making new progress. At the last session of the Central Corporative Committee, Signor Mussolini, summing up the discussion, concluded in favour of the immediate formation of the "corporations", which, as State organs, shall harmonise and develop the activity of the productive groups (*categorie*) to the end of a centralised control of production.

According to the Labour Chart and to the Act of April 3, 1926, the first step in the building of the Corporative State was the unification of employers' and employees' associations or unions. Only one legally recognised employers' union had the right to enter with the corresponding employees' union into collective agreements as to wages, hours and other conditions of work. Strikes and lock-outs were forbidden. Unions were not empowered to interfere with the internal organisation of industry. Collective agreements were compulsory for members and non-members of the unions alike. Individuals could contract out of the collective agreements, but only if better conditions for workers were stipulated.

It was soon realised that the system was incomplete. How was it possible to regulate wages, hours and other conditions of industry without reg-

234. May 27, 1933, pp. 1133-1134. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Foreign expansion and internal growth of the corporativist State" and dated "Turin, May 21, 1933", is kept in the Einaudi archives.

ulating other factors in economic equilibrium? Employers felt happy to increase or not to decrease wages if only they were enabled to do so. This was the origin of the famous Section 12 of the Act of March 20, 1930, creating the "National Corporations Council". It should be remembered by English-speaking people that the word "Corporation" has in Italy an entirely different meaning from the current English one and should better be read as "Guild" system or "Guild" State, etc. The Council is a central body representative of employers' and employees' associations, of certain other social public bodies (institutes for social insurance or assistance), of public departments, and of men specially competent in economic and social matters. The Council is divided into sections: agriculture, commerce, industry, land transport, navigation, banks, liberal and artistic professions. In virtue of Section 12, the Council "may regulate the economic collective relations between different economic groups" represented by unions. The wording of the section is general, and may embrace everything from the regulation of prices to limitation of production, of markets, cartellisation and restriction against starting of new factories. Special Acts empower the Government to regulate compulsorily cartels and the starting of new factories. The Council, however, can act only after the request of *all* the interested associations, and its conclusions become compulsory only if the Prime Minister assents to their publication in the *Official Gazette*. The sanction of the Prime Minister is required in the interest of the consumers or of the community in general. It will easily be seen that the "norma", as is called the decision of the Corporative Council, has almost the same effects as an Act of Parliament, duly sanctioned by the King and published. Hitherto the interested associations and the Council have made a very limited use of the far-reaching quasi-legislative powers granted them, partly owing perhaps to the cumbrous nature of such a numerous body as the Council.

The recent decision reached by the Council, upon the Prime Minister's motion, aims at accelerating the process. The powers of the National Corporations Council will probably devolve on to the Groups Corporations, viz., a body or Guild formed by the employers' and employees' associations of the same industry or industries.

The Guilds will act not only as consultative special councils of the Government, but also as a normative (or legislative) authority as regards 1) standardisation of the conditions of labour in the industry; and 2) regulation of industry. If the employers' associations of a group of correlated industries, with the consent and for the partial benefit of their employees, wish to restrict production, by closing the worst equipped or badly situated

factories or otherwise, they will apply to that end to their Guild; and, if the Prime Minister concurs, the regulation will become compulsory.

The lessons to be derived from the Italian experiment in the regulation of industry are, among others: 1) Regulation cannot stop at one point, viz., wages or hours of labour; it must eventually be extended to all relevant points. 2) It cannot be entrusted, if it is to work quickly enough, to too large a body, such as an industrial parliament as a whole; smaller regulating bodies must be created, such as groups or guilds. 3) It is possible to regulate everything, subject to the final appeal to the consumer, who cannot be coerced. 4) In the Italian system the voice of the consumer is supposed to be felt in the legislative stage, through the Prime Minister's right of assent. Experiment has not progressed enough to let us see the actual working of the Prime Minister's brake on behalf of consumers. Is free competition's automatic machinery going to be succeeded by the sixth sense of the economic dictator?

235.

ITALY

STOCK MARKET RECOVERY – GOVERNMENT BORROWING –
WHEAT SITUATION

From our Correspondent

Turin, June 12

The feeling that the worst point of the crisis has been reached, the hope that something will come out of the London Conference, received striking confirmation when the Four-Power Pact was initialled at Rome. The Italian Press was unanimous in proclaiming the Mussolini Pact as the sure guarantee of a long period of peace in Europe. Markets, which were already on an upward trend, rose further. The Milan "Borsa" index for variable dividend securities, which, after a desultory rise to 108.20 in the first week of February (December, 1932=100), had again sunk to 101.72 in the week from April 18th to 22nd, began to recover ground in May, reaching 106.37

234. June 24, 1933, pp. 1357-1358. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain according to Graham Hutton.

in the week from May 22nd to 27th. Thereafter, the movement continued. A real boom seems, however, unlikely, when the market is bound to digest the continuous outpouring of bonds by public authorities. The State expenditure alone must be financed to the tune of about four milliard lire a year (3,867 million lire deficit in 1931-32, 4,200 in 1932-33 and 2,900 million lire estimated for 1933-34). The financing of State deficits is provided for through the Postal Saving Banks and the various Social Insurance Funds. Postal Bills alone gave to the Treasury 1,442.6 million lire in 1931, 2,037.4 millions in 1932 and 426.4 millions in the first quarter of 1933. The State Floating Debt is rapidly rising: from 1,618 million lire on June 30, 1928, to 5,492 on June 30, 1931, to 6,647 on June 30, 1932, and to 8,390 on April 30, 1933. Over and above the current budget deficits, the State is making big appeals to the market for investment purposes.

A few months ago the I.R.I. issued one milliard lire of bonds for reconstruction purposes. On June 1 there was an issue of 600 million lire 4.50 per cent. bonds, amortisable in 20 years, issue price 455 lire on 500 lire nominal, with three yearly prizes of one million lire each for the first five years of currency of the loan. As the proceeds of the loan will be used for the electrification of State railways, 1,000 free pass first-class tickets, for one month between July 1 and September 30, over the whole of the State railways will be drawn among the subscribers every year for the whole 20 years currency of the loan. The issue was a big success; 1,151 million lire were subscribed in 48 hours by 198,488 subscribers. Signor Jung proudly pointed to the big number of subscribers, which compared with 20,000 to 25,000, the corresponding figures of war loans.

An interesting index of the coming change of sentiments in economic circles is given by rumours current as to the possibility and usefulness of a rapid liquidation of the big mass of industrial assets held by the Sofindit and the I.R.I. These two concerns are practically one, as the I.R.I. has subscribed recently the whole increase of the capital of the Sofindit. The I.R.I. has thus become the biggest repository of industrial shares and bonds existing in Italy.

Agricultural recovery is slow. The very success of the wheat campaign provokes misgivings about the future of prices. In the eleven months from July 1, 1932, to May 31, 1933, wheat imports totalled 295,946 tons, against 594,470 in the corresponding months of 1931-32. It seems probable that an important wheat stock must be transferred to the next wheat year. If the coming crop is good, there is a possibility that internal production plus stocks will more than suffice. In various places offers for future wheat had

fallen from the level of 1,000 to 800 lire per ton. Signor Mussolini, presiding at the Wheat Committee, has therefore announced that the 750 lire per ton duty shall be maintained; that foreign wheat shall be almost completely excluded from milling; that credit facilities shall be extended for wheat stocks; that corporative organisations shall consider the application of a policy of gradual sales. Wheat is a national crop; and it is of the utmost importance to prevent the diffusion in the great mass of agriculturists of the same sort of discouragement which is playing havoc among the small section of rice-growers.

236.

ITALY

NEW RAILWAY ISSUE – BUSINESS RECOVERY – FINANCIAL RECONSTRUCTION

From our Correspondent

Turin, July 17

In the past week the outstanding financial event was a second issue of 600 million lire 4.50 per cent. 20-year amortisable bonds for the electrification of State Railways at the price of 91 per cent. The yield works out at 5.66 per cent., exclusive of three yearly one million lire premiums for the first five years of life of the loan and 1,000 yearly first-class one-month vacation free tickets on the State Railways. The issue was a big success. In ten hours the subscriptions exceeded 1 billion lire, and when they were closed, subscribers were more than 180,000. The deficit for the first eleven months of the fiscal year 1932-33 amounted to 3,782.2 million lire, against 2,249.7 millions in the corresponding period of 1931-32. As usual this is the theoretical or "accounting" deficit, *viz.*, the difference between revenue accrued or to accrue and expenditure made or to be made on account of the appropriations of the current year. "Real" deficit, *viz.*, difference between revenue cashed and cash issued is much less: 2,166.1 million lire

236. July 29, 1933, pp. 230-231. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. The success of a new railways loan. Unemployment. Good harvests" and dated "Turin, July 17, 1933", is kept in the Einaudi archives.

in the same period; and can be easily covered by the excess of deposits in the postal savings banks and other public Funds administered by the State Bank (Deposit and Loans Bank).

The policy of public works has had, according to a recent announcement, a signal success. The number of unemployed decreased in 1931 from 722,612 in January and 765,325 in February to 573,593 in June (minimum). In 1932 it decreased from 1,051,321 in January and 1,147,945 in February to 905,097 in June (minimum). In 1933, however, it fell from 1,225,470 in January and 1,229,387 in February to as low as 883,621 in June. The decrease between February and June has therefore grown from 191,732 and 242,848 to 345,766. The General Confederation of Industry adds that during the month of June 463 industrial establishments, employing 4,838 men, closed, but 868 new ones were opened, employing 9,468 men. The wheat harvest is nearly finished. Official data have not as yet been published, but reports are generally very favourable. A strong campaign has been started against hurried sales by farmers. Saving banks and other credit organisations offer to advance 900 lire, less interest and storage charges per ton, and farmers are being encouraged to wait for a rise in prices.

Indices of economic activity are in the main improving in Italy. Production in the first months of 1933 increased compared with 1932, as follows: — Iron sheets, 16.42 per cent. (four months); pig iron, 9.06 per cent. (five months); steel, 19.54 per cent. (five months); cement, 22.36 per cent. (four months); superphosphates, 61.29 per cent. (four months); rayon, 1.70 per cent. (four months); paper 7.16 per cent. (four months); electrical energy, 8.84 per cent. (four months). Allusion has already been made to this year's substantial decrease in unemployment.

For international trade, against a total turnover of 37 billion lire in 1920, the figure for the first five months of 1933 is reduced to 6.2 million lire. The public draws some comfort from the observation that in the same five months imports have decreased from 3,743.2 to 3,123.4 million lire, while exports have only fallen from 2,762.6 to 2,513.0 million lire. Another figure calculated by the General Confederation of Industry is even more illuminating, viz., that the greatest decline in imports took place, owing to good crops and good farming, in foods, whose imports in January and February fell in quantity to 59.36 and 57.67 per cent. respectively of the 1925 basis; while raw material imports increased to 134.46 per cent. and 106.45 per cent.

Postal saving banks deposits increased only by 530.8 million lire in the first four months of 1933, against 649.6 millions in the corresponding per-

iod of 1932; but ordinary saving banks deposits increased by 417.9 millions, against 201.8 millions. A few instances of the reconstruction process taking place in Italy can be quoted. A year ago the Italian Gas Company collapsed. The task of reconstruction entrusted to the new president, Senator Frassati, was formidable. After a year of strenuous work he was able to tell the shareholders that the share capital, after being reduced to 26 million lire, had been increased again to 260 million lire; banking overdrafts are reduced from 455 million lire to practically nothing, and in their stead a long-term ten years' $5\frac{1}{2}$ per cent. loan of 140 million lire has been granted by the I.M.I. (Istituto Mobiliare Italiano). The creation of the I.M.I. is proving successful.

In the presence of Signor Mussolini, Senatore Mayer described the first year's working of the Institute. On March 31, 1933, the results may be summed thus: Loans requested, 2,805 million lire; loans granted, 558 million lire; accepted in principle, 43 million lire; under examination, 219 million lire. It was possible to float 500 million lire 5 per cent. bonds without having recourse to the State guarantee. The growth of the National Insurance Institute was also described recently by the President, Senator Bevione. Created by Signori Giolitti and Nitti, amid much opposition, as a life Insurance Monopolist Institute, it was transformed in 1923 by Signor Mussolini and was given the character of a public institute freely competing with authorised private companies. The progressive growth was as follows at the end of the first (1913), tenth (1922) and twentieth (1932) years of working: — Number of contracts, 140,000, 542,622 and 1,052,136; capital insured, 936, 4,150 and 11,465 million lire; premiums received during the year, 34, 190 and 519 million lire; reserves, 168, 731 and 3,167 million lire. The Institute is thus to-day a strong link in the chain of public institutes, which consists of postal savings banks, ordinary saving banks, deposit and saving banks (Cassa Depositi e Prestiti), the Banks of Naples and Sicily, land and real estate banks (Monte dei Paschi of Siena, San Paolo of Turin, etc.), and social insurance institutes.

237.

ITALY

UNEMPLOYMENT — WHEAT SOWINGS — BANK OF ITALY

From our Correspondent

Turin, August 21

Business indices are encouraging. The numbers of building permits, after falling from 187,355 rooms in 1929 to 81,568 in 1932, increased to 23,793 rooms in the first quarter of 1933, against 21,378 in the corresponding quarter of 1932, and 29,659 rooms in the second quarter of 1933, against 21,373 in 1932. The increase may be attributed to the anxiety of builders to have new houses ready before the end of 1935, when the 25-years tax exemption will no longer be granted. Building activity is also stimulated by the policy of slum clearings in the biggest cities; against 4,610 rooms demolished in 1927 the corresponding number was 5,329 in 1928, 6,857 in 1929, 6,502 in 1930, 11,347 in 1931, and 11,579 in 1932. Unemployment figures are also improving. In 1931 and 1932, after the February maximum, the minimum was reached at the end of June, July again showing a rise. In 1933 the decrease continued in July. The figures are as following: — 1931: February, 765,325; June, 573,593; July, 637,531. 1932: February, 1,147,945; June, 905,097; July, 931,291. 1933: February, 1,229,887; June, 883,621; July, 824,195. Thus in 1933 not only was the decrease more marked but it seems to be something more than seasonal. Unfortunately, the classification by industries was changed in April, 1933, to suit the legal classification of working-men in the corporative associations. The improvement appears, however, to be fairly well diffused, except in textiles and chemicals.

At the end of the last session (August 9th) of the Permanent Wheat Committee no figures were made public of the 1933 crop; which is said to be of very good quality. But a hint was given that efforts at propaganda by agricultural authorities should be concentrated on keeping constant the surface sown. The increase in new redeemed lands should be compensated

237. August 26, 1933, p. 410. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Building permits and tax-exemption. Unemployment decreasing. Wheat sowings to be kept constant. New industrial establishments. Fiscal year closed. Bank of Italy's situations compared", dated "Turin, August 21, 1933", is kept in the Einaudi archives.

by reductions in the least favourable lands. If the price is to be kept at the 900 lire per ton level the internal production must be limited.

The fiscal year closed provisionally on June 30, 1933, with better results than in the past year. The deficit decreased from 4,274,300,000 lire in 1931-32 to 3,937,700,000 in 1932-33. The decrease was the consequence of a decrease from 19,033,300,000 lire to 17,965,000,000 lire in revenue, and of a greater decrease from 23,307,700,000 lire to 21,903,600,000 lire in expenditure. The increase in the internal public debt was greatly inferior to the deficit: 1,413,000,000 lire, from 95,572,000,000 lire at June 30, 1932, to 96,985,000,000 lire on June 30, 1933. The explanation is the usual one: cash outgoings are less than the budgeted expenditure, some payments being postponed until legally due, for instance on the completion of public works, etc.

The position of the Bank of Italy on September 20, 1931, April 10, 1933, and August 10, 1933, respectively was as follows: — Gold reserves, 5,407,700,000 lire, 6,313,600,000 lire, 7,013,400,000 lire; gold devisen reserves, 3,326,500,000 lire, 799,700,000 lire, 335,900,000 lire; note circulation, 14,512,400,000 lire, 13,019,300,000 lire, 13,019,300,000 lire; discounts and advances, 4,214,000,000 lire, 5,423,400,000 lire, 5,000,700,000 lire. The sale of about 3,000 million lire of foreign bills (gold devisen reserve) was partly utilised to purchase gold to the amount of 1,600 million lire, at home and abroad, and partly to increase internal discounts and advances. If we take account of the enormous burden of frozen assets which in the meantime was carried over and digested, we are bound to conclude that the Bank of Italy is coming through the crisis very well.

238.

ITALY

FALLING INTEREST RATES — BANK OF ITALY — INDUSTRIAL PROFITS

From our Correspondent

Turin, September 20

The expectation of improvement in the financial markets has been confirmed by two official reductions of the rate of interest. The rate taken as a

238. September 23, 1933, p. 580. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, en-

basis of calculation for long-term annuities, in case of State subventions to public works or public utility companies, was first reduced from $6\frac{1}{2}$ to 6 per cent. Then, as from September 4th, the rate of discount of the Bank of Italy was reduced from 4 to $3\frac{1}{2}$ per cent. and the rate of interest on advances from 5 to 4 per cent. This is the last of several reductions from the high-water mark of 7 per cent. reached on September 27, 1931, the successive downward steps being to 6 per cent. on March 21, 1932, 5 per cent. on May 3, 1932, and 4 per cent. on January 1, 1933.

The situation of the Bank of Italy is to-day more liquid than ever. Total reserves (gold and gold bills) after increasing from 7,080.1 million lire on July 20, 1932, to 7,230 million lire on November 20, 1933, had decreased again to 7,022.5 million lire on May 20, 1933. On August 31, 1933, they were again up to 7,350.5 million lire. The increase has taken place, although between July 20, 1932, and August 31, 1933, the gold bills (devisen) had decreased from 1,390.2 million lire to 318 million lire. In the meantime gold coins and gold bullion increased by 1,323.5 million lire from 5,689.9 million lire to 7,013.4 million lire. A good part of the increase, about 500 million lire, in the actual gold reserve is due to the sale of old gold coins and gold trinkets from the public to the Bank of Italy at current prices. Also between these dates, the sum of discounts and advances decreased by 567.1 million lire, from 5,669.7 million lire to 5,102.6 million lire. Money, if not superabundant in the market, is freely obtainable by good customers. Gilt-edged securities are in great demand, 3.5 per cent. rentes rising from 75.43 net price at the end of March to 80.90 to-day, and 5 per cent. consols from 83.43 at the end of February to 88.15 (ex current dividend) to-day.

If the public appears to be less interested in variable dividend securities, the reason is probably that investors are watching the progress of the reorganisation process that is going on in the joint-stock company world. That this reorganisation is proceeding rapidly is shown by the changes in the number and capital of joint-stock companies. The number increased from 16,170 at the end of 1929 to 19,079 on June 30, 1933, total capital decreasing in the meantime from 49,596 million lire to 48,669 million lire, or from an average individual capital of 3.07 million lire to 2.55 million lire. In the first half of 1933 increases of capital totalled 1,744.4 mil-

titled "Italy. Reduction of the official rate of discount. Liquid situation of the Bank of issue. The re-organization process in Joint-Stock Companies", dated "Turin, September 12, 1933", is kept in the Einaudi archives.

lion lire and decreases 2,677.4 million lire. Decreases are mainly the outcome of losses consequent on past financial booms.

The new financial journal *Borsa* has published the results of an important inquiry into the profits and losses of a number of joint-stock companies, representing about 60 per cent. of the total capital invested in shares in Italy. As it is the first time that a reasonably up-to-date inquiry has been conducted on the lines of the *Economist's* statistics of British industrial profits, a summary of the results obtained is perhaps interesting:

	(Million Lire)			
	1929	1930	1931	1932
Companies showing profits:				
Number	910	840	763	711
Capital	25,270.3	24,490.7	23,870.4	22,409.5
Profit	2,760.0	2,331.3	1,850.2	1,641.2
Profit %	10.92	9.51	7.75	7.32
Companies showing losses:				
Number	179	253	323	383
Capital	1,551.0	3,781.6	3,712.9	5,521.6
Loss	317.2	1,408.7	837.3	839.0
Loss %	20.45	37.25	22.55	15.19
Companies showing neither profits nor losses:				
Number	29	25	32	24
Capital	180.6	652.7	1,301.7	1,144.7

The liquidations of past losses and the elimination of watered assets is not ended. The public, however, is beginning to realise that some companies are already reorganised, and that many more were able to withstand the crisis and will profit by better times.

239.

THE NEW ITALY

In a speech of studied gravity before the National Council of Corporations in Rome last Tuesday Signor Mussolini declared to his hearers that the economic crisis under which the whole creation groans and travails

239. November 18, 1933, pp. 952-953. The article, unsigned, was published in the section: "Leading Articles". It is an editorial work based on Einaudi's manuscript, entitled "The making of corporations in Italy" and dated "Turin, November 8, 1933", kept in the Einaudi archives. For Einaudi's comments on it see n. 240.

to-day is not a crisis *in* the private capitalistic system, but *of* it. The Duce went further: the capitalist system had had its day. Its dynamic phase endured from 1830 to 1870; the static lasted only a decade, from 1870 to 1880; then came the phase of "decadence", inaugurated by a system of cartels and trusts, and developing into a State-regulated economy. In this process the private capitalist system had ceased to be merely economic; it had become a widespread social problem, under whose baleful influence we were now "standardised from the cradle to the grave: a diabolical thing!". These seem strange words from the creator of Europe's corporative State *par excellence*; but stranger still followed. Signor Mussolini thought that Italy was not a capitalistic nation, and never would be one. The corporative principle will in future secure the people's well-being; therefore the new Chamber of Deputies, that relic of capitalistic politics, when elected, will vote its own euthanasia and straightway proceed to commit it. Thereafter the National Council of Corporations is to assume power. The old parliamentary system, born with dynamic capitalism and liberalism, was now like them ripe for death. The Italian corporative renaissance to-day, in a world of general crisis, would then impose itself everywhere, in Signor Mussolini's view.

What, then, is this corporative State, and in what does the essence of "a corporative solution" consist? The following description of the former and present systems is based upon information from our Italian correspondent.

The "corporative" idea was put forward not long after the Fascist revolution, largely because the political and administrative control of the new Fascist régime was faced, as was only to be expected, with obstacles and loopholes inherent in the old private-capitalist economic fabric. The first application of the idea occurs in the law of April 3, 1926, which regulated the relations between capital and labour. The transformation, in virtue of this fundamental Statute, of free multiple unions into public employers' and employees' syndicates which were to regulate wages, hours, and conditions of labour, gave rise to the question: What will happen if the two sets of public bodies should not agree? Labour Courts, endowed with the power of compulsory decisions, were a solution of the problem. They were only a partial solution, because Labour Courts can give decisions only on special points. But what if judicial decisions required changes in the methods of production, in price formation or in marketing? Section 3 of the Statute of April 3, 1926, was content to say that central organs mediating, under a higher authority, between employers' and employees' syndicates, should be constituted. Regulations made on July 1, 1926, in pursuance of the same law, called these central organs by the name of "corpora-

tions". The Labour Charter (sixth section) declared that "corporations" are the unitary organisation of productive forces in the State, and that they can issue compulsory orders (*norme*) as to the conditions of labour and also as to the co-ordination of production, when empowered to do so by interested syndicates (unions of employers or employees). As corporations then, however, did not exist, no use could be made of the powers granted. A further move was made by the royal decree of July 2, 1926, and a more extensive step by the statute of March 20, 1930, which created, instead of separate Corporations, a National Corporations Council, with power to issue "orders for the regulation of collective economic relations by legally formed syndicates". These orders could be made only if the Council was invited by the interested syndicates and if the head of the Government, representing the general interest, gave his assent.

It soon appeared that the machine was not easy to work, as the conditions 1) of agreement between all the syndicates and 2) of the assent of the Premier were not easy to fulfil. The Council was not invited to make orders on the regulation of industry more than in one or two cases. Moreover, when a statute contemplated the creation of compulsory associations (*e.g.*, on prices, production quotas, and other industrial group regulations), the whole procedure took place outside the Corporations scheme. The individual firms concerned and the Corporations Department (in its capacity as, say, the British Board of Trade) were the organs called on by the law to organise the particular associations. Finally, another special Departmental Committee was created to give advice on the requests of industrialists to start new ventures or to renew or extend industrial plant.

The present task is the co-ordination of all these scattered pieces of legislation. The "Corporation", which has hitherto had a nominal existence, is now to become a living organism. The present economic organisation based on a hierarchy of linked employers' and employees' syndicates, and on their local, regional and national federations and confederations, must be integrated into a larger organisation based on interlocking units called "corporations". Foreign observers will be interested in the fact that the "Corporative State", which was from the beginning the *leitmotiv* of Fascism, only now finds its embodiment in an organisation which can properly be called corporative.

Many problems must therefore be resolved. Leaving aside such problems as are purely political, the most pressing technical points seem to be the following. Will corporations merely integrate, or entirely supplant the syndicates? If a special organ, called a corporation regulates economic and social problems, what will the respective employers' and employees'

syndicates have to do? If both parties are represented in the corporation are both to have ample scope for discussion and agreement inside the corporation? Will the syndicates, the sources of functional initiative, "agree to die quietly"?

Again, the present syndicates are mainly organised by trades or functions: industry, agriculture, commerce, transport, credit, professions and arts. This is all very well, when syndicates must discuss and decide labour questions. But should textile workers deal with the vaster problem of regulating industry? As Signor Mussolini said, the corporation will determine what commodity to produce, the manner of producing it, and the selling price. But these are not problems to be discussed between interested men of the same industrial category. Textile manufacturers cannot be authorised to legislate for themselves on problems which also influence very considerably other industries, consumers, and the common weal in general. The corporation is therefore a wholly different thing from the unit syndicate. Both may co-exist in their respective spheres. What, then, will be the sphere for which the corporation will legislate?

Two conceptions have come to the front based upon the industrial group, and the product. The "group" conception involves regulation by bodies representing the comprehensive divisions of industry, credit, agriculture, transport, etc. Each group will legislate for itself, provided that some device is contrived to protect the general public from a too "narrow" legislation in price-fixing, limitation of new ventures, Customs duties, etc. The "product" conception, on the other hand, aims at automatically providing this necessary device. The corporation, according to this second idea, should not embrace all "agriculturists, and exclusively the agriculturists; but all interested in the production and marketing of a product; for instance, the wheat and other cereal growers, the miller, the baker — together with all those interested in marketing the intermediate and final goods, inclusive of all their respective employees". This vertical organisation should be able to keep the primary, intermediate and final producers and merchants in touch with one another, and should be better able to test the needs of the consumers. In the interview already quoted, Signor Mussolini concluded that the group system is preferable for industry, and the product system for agriculture. Problems are apt to arise, however, over the relations between the two conceptions. The National Council of Corporations will thus be called upon again to solve the eternal problem created by the free initiative of the individual and the co-ordination of separate individual activities.

As if to dissolve doubts by some concrete proposal, the Duce himself last Monday presented to the National Council a resolution in which the corporation is defined as "the instrument which under the ægis of the State disciplines the productive forces in view of the development of the wealth, political power and well-being of the Italian people". In the terms of this resolution the corporation is to embrace representatives of "the State, administration, the Fascist party, capital, labour, and the technicians"; the corporation receives from the National Council the power to enact laws of an economic character; and the Fascist Grand Council has the task of making the constitutional modifications necessitated by the creation of these new legislative units.

We therefore know enough of the corporative basis of the future Italian State to say that the decisive step is only now being taken; and it is a step which cannot fail to have far-reaching consequences in other spheres than the economic, and in other lands than Italy. The Chamber will have disappeared; the individual citizen's interest in his liberties of thought, speech, meeting and expression will be subordinated to the economic organisation of Italy on the one hand, and to the exigencies of the Fascist Party, as evidenced by the Fascist Grand Council, on the other. But is it a fact that a political system based on economic groupings covers all the citizens needs? If the State so identifies itself with the control of industry and the maintenance of individual well-being, it must accept responsibility for the economic situation at all times. Before the laurels descend upon the brows of the constitution-maker in Italy, one may be pardoned if one "asks for more" information on the technique of labour recruitment and transfer, production-control, price-fixing and capital-provision and investment. These form the Achilles' heel of all State-controlled bodies economic; and there is more than a mere presumption that in future the internal political stresses in Italy will wax and wane in direct ratio to the fluctuating fortunes of the economic system. Upon these fortunes, now State-directed, the eyes of the outside observer will henceforth be closely riveted; and upon their variations the new Italian constitution will itself be judged by the Italian people.

240.

ITALY

RISE IN SECURITY PRICES — SIGNS OF RECOVERY —
RICE AND WHEAT PROSPECTS*From our Correspondent*

Turin, November 10

The most interesting movement on the Italian Bourses in recent months has been that of gilt-edged securities. From average prices of 78.33 and 86 respectively in the first half of 1933, quotations of 3.50 and 5 per cent. Consols rose to 79.65 and 89.10 at the end of August, to 82.50 and 90 at the end of September, and to 90.65 and 94.50 on October 14. This unusual movement gave rise to rumours of a new issue of Treasury bonds or Consols, said to be necessitated by the big deficit of 3,938.0 million lire for the fiscal year 1932-33, followed by a deficit of 717.7 million lire in the first two months (July-August) of the present year, against a corresponding deficit of 669.4 millions in the corresponding months of 1932-33. An official *communiqué* issued by the Treasury declared at once that no such issue was contemplated. The public Exchequer notwithstanding these deficits, which are largely book-keeping entries, is very well provided, cash amounting to no less than 2,032.6 million lire. No bonds are due until late in 1934. The rise in gilt-edged is a genuine reflection of superabundant savings, and of the predilection of savers for Government securities.

Notwithstanding many attractive issues of fixed interest bonds by the State Railways, by the I.M.I., I.R.I. and other public bodies which have absorbed new savings in recent years, postal saving banks' deposits have increased by about 30 per cent. from December, 1931, to July, 1933, ordinary saving banks' deposits by over 4 per cent. between the same dates, and public credit institutes' and ordinary bank deposits by about 33½ per cent. over the same period. The only decreases took place in the People's Banks

240. November 18, 1933, pp. 965-966. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Rise in State securities. Rumours of new issues. Increase in savings. Widespread improvement of economic indices. Rice and wheat growing problems", dated "Turin, October 16, 1933", is kept in the Einaudi archives.

and Regional Banks groups, and they were of a quite negligible order. Even in these groups, however, a turn of the tide is remarkable in the first half of 1933. Without doubt, when a public issue is once decided on by the Treasury it will be a success. Competition of private issues by Joint Stock Companies is absent. The number of registered companies increased from 17,384 at the end of 1930 to 18,518 at the end of 1932, and to 19,080 on June 30, 1933; but the capital decreased in the meantime from 52,280.8 to 49,601.7 and 48,668.6 million lire respectively. The decrease is merely the legal liquidation of past losses; and when capital figures again increase, the situation will be by far more liquid than in the boom years.

That industrial activity is better is shown by the following figures:

	Sept., 1932	Jan., 1933	Sept., 1933
Unemployment	949,408	1,225,470	907,463
	Jan., 1926	Jan., 1931	May., 1933
Percentage of cotton spindles active	97.27	78.08	82.06
	Jan.,-July, 1926	Jan.,-July, 1932	Jan.,-July, 1933
Cotton consumption in bales per active spindle	106.77	73.71	85.36

Production of thermo-electrical energy also increased between the first seven months of 1932 and the same period of 1933. The expansion of trade is also illustrated by the following figures:

	1 st Seven Months of 1932	1 st Seven Months of 1933
Visible passive trade balance	1,339.9 million Lire	1,020.1 million Lire
Imports of raw cotton	121,247 tons	130,504 tons
Imports of raw wool	52,212 tons	65,113 tons
Imports of scrap iron and steel	281,124 tons	351,746 tons
Imports of coal	5,069,928 tons	5,171,164 tons

These are real indices of growing industrial activity, taking place without appeal to the money market, simply by the better utilisation of already invested capital.

Agriculture is less certainly recovering. The rice situation is depressed. The area decreased from 135,469 hectares in 1932 to 126,792 in 1933; and production decreased from 6,566,420 to 6,011,180 tons; but prices of raw rice (original first) are low at 420 lire per ton. The Rice Board is making great efforts to encourage exports, with taxation of home-consumed rice and premiums on exported rice. A further reduction of the rice area now seems imperative. But is compulsory reduction to be the same for all, or vary according to the suitability of the land? This last solution is

being impressed – not compulsorily, but by authoritative advice – on wheat growers by the Departement of Agriculture and by the Confederations of Agricultural Employers and Employees. As the wheat crop appears to have been good and as Italy has signed, with various reservations, the London Wheat Convention, efforts are made to settle the wheat problem by the adoption of better methods of cultivation, in accordance with the Convention's provision that home production shall not exceed home consumption. Hence the official advices to limit wheat-growing to well-situated lands. What owners of indifferent soils are to do, when, at present prices, wheat is as yet the best proposition in the market, is not yet clear. Substitutes for indifferent soil are not easily obtainable.

241.

ITALY

FASCISM AND THE LEAGUE – THE CORPORATIVE STATE –
PRODUCTION IN 1932*From our Correspondent*

Turin, December 9

Comments on the international situation in the Press are unanimous. The interruption of the Disarmament Conference having been taken as unavoidable as soon as Germany seceded, the event did not excite any surprise. The Fascist Grand Council has already deliberated on the position of Italy in the League of Nations. References to the possibility of Italy seceding from the League are not wanting; but as yet a waiting attitude seems more probable. Foreign Press hints of conferences or meetings of the principal Powers in Rome to discuss a way of exit from the present tangle are sympathetically recorded.

Internal politics turn on the consequences of the Constitutional changes foreshadowed in the Duce's speech at the corporative Council.

241. December 16, 1933, pp. 1176-1177. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Disarmament. The Premier's speech and corporative policy. Italgas and Sip re-organisations. Wheat campaign. Budget. Business statistics", dated "Turin, November 27", is kept in the Einaudi archives.

In the opinion of your correspondent the *Economist's* comment on the Italian Corporative State in your issue of November 18th was coloured by what might be called a world-wide point of view. What Signor Mussolini meant, when he said that Italy was not a capitalist country, was mainly that the world crisis, unemployment, banking difficulties, etc., have not played havoc in Italy partly because of the small and medium-sized character of the millions of agricultural, industrial and commercial enterprise units. On April 21, 1931, against 2,943,000 cultivating landowners, 858,000 farmers, 1,631,000 metayers and other participating cultivators, the 2,475,000 agricultural wage-earners are in a minority. In the industrial and commercial field the number of wage-earners is 4,283,000; but 523,000 industrial employers, 841,000 merchants and 724,000 artisans are by no means a small minority. The Corporative State will thus be called to organise a society in which there is still much movement between the employing and the employed classes. As far as can be said on the basis of the Duce's last speech, guilds will be the channel through which these many-sided social groups will voice their needs. Guilds (corporations) will not change the social structure. Their purpose is only to organise or associate them.

The big men, cartels, syndicates and trusts are, in the main, a recent outgrowth, to be strictly controlled. It would be a mistake, however, to suppose that Signor Mussolini is in favour of nationalisation of big concerns or even of a uniform policy toward them. Two recent instances will illuminate what is happening. These letters have already referred to the re-organisation of the biggest Italian gas concern – the Società Italiana Gas. Under the chairmanship of Senator Frassati, the Italgas was rescued from its troubles and put on a sound basis. Nearly 231 million lire of its total 260 million lire share capital remained the property of the Sofindit, which in its turn is the property of the I.R.I. (Institute for Industrial Reconstruction), a public institution owned by the State and State bodies. Italgas was thus in fact controlled in the last instance by the Finance Minister. Now, a few days ago, Senator Frassati was able, as the head of a group of friends and strong private interests, to buy back from the Sofindit and to pay in cash all their 231 million lire shares block. The Italgas is now once more an ordinary private joint-stock company. The fact proves that the State need not fear to be encumbered with the property of all big Italian concerns. Good propositions will always find willing buyers. The task of Sofindit and I.R.I. is to rescue overgrown frozen companies and set them going again.

The second instance is that of the Electricity Sip group, one of the two largest electricity combinations in Italy (the other one is the Edison group,

a soundly managed concern, which never needed State aid). The Sip group, encumbered by a gigantic capital of 1,786,000,000 lire, unmanageable and frozen, fell under the management of the Sofindit – I.R.I. – Finance Minister. Now the first stage of reorganisation has been concluded. The capital of the group was reduced to about 924,000,000 lire. The Sip group proper was confined to electricity producing and distributing functions, under the competent chairmanship of Professor Vallauri, an electrician of European reputation and president of the Turin School of Engineering. The telephone business was severed from the Sip; and to reimburse the Sip for the sum invested in the telephone system an issue is now being made of 400,000,000 lire 4 per cent. 20 years' debentures, State guaranteed, participating progressively in the net profits of the S.T.E.T., a new company, which is to take over the telephones from the Sip. As the whole share capital of the S.T.E.T. is subscribed by the I.R.I., the upshot of the matter is that telephones, which a few years ago were sold by the State to the Sip, come back, through the instrumentality of the S.T.E.T. and the I.R.I., to the State. This, however, may be only a passing stage, because the subscribers to the present 400,000,000 lire S.T.E.T. debentures have the option of converting them into shares. The option will certainly materialise if and when the S.T.E.T., by good results, persuades the debenture-holders to exchange their State guaranteed debentures into variable dividend shares.

At the session of the Permanent Wheat Committee on November 22 the Duce communicated the results of the Wheat Campaign:

	Average Annual Productions Tons	Average per hectare (1 hect. = 2.5 acres.)
1909-14	4,927,200	1.03
1920-25	5,128,000	1.1
1925-30	6,580,157	1.34
1931-32	7,429,640	1.5
1933	8,100,320	1.59

As the acreage was not increased the increment was wholly due to better cultivation. The 1933 crop is enough for internal consumption, since other crops, mainly maize and potatoes, were mediocre. As, however, prices are weak, Agricultural Credit and Savings Banks made advances on 500,000 tons on the basis of 900 lire per ton, and new advances will be made on the basis of 800 lire up to 300,000 tons. Advances should enable agriculturists to wait for better prices in the spring. As the price of raw rice has been falling even below 400 lire per ton, the Rice Institute states to-day that a 4.5 per cent. loan of 500 lire per ton will be granted, and that

all unsold stocks be bought by the Institute after June, 1934, on the basis of 600 lire per ton.

At the last session (November 23) of the cabinet the Finance Minister announced that the deficit in the State Budget for 1932-33, which was provisionally estimated at 3,938,000,000 lire, was finally calculated at only 3,549,000,000 lire.

	Revenue	Expenditure (million lire)	Deficit
1932-33	18,217	21,766	3,549
July-October, 1932	5,815	7,237	1,422
July-October, 1933	5,718	7,246	1,527

For the first ten months of the year the following economic changes are recorded:

	Imports	Exports	Passive Balance
International trade (mill. lire):			
1932	7,440	6,185	1,255
1933	6,728	5,508	1,220

	Goods Charged (Thousand Tons)	Passengers (Thousand)
Traffic on State railways:		
1932	(10 months) 35,405	(9 months) 61,596
1933	(10 months) 33,283	(9 months) 61,200
1932	(July-Sept.) 14,739	(July-Sept.) 24,033
1933	(July-Sept.) 14,350	(July-Sept.) 24,691

Production of electrical energy is increasing (first nine months and million of Kw.h.):

	1932	1933
Hydro-electric energy	7,147	7,824
Thermo-electric energy	211	247
Imported energy	128	134
Total	7,486	8,205

The numbers of totally unemployed are as follows:

	1931	1932 (000)	1933
February (maximum)	765	1,148	1,229
July (minimum)	638	931	824
October	800	956	963

Statistical methods were changed, however, as from April and again from July, 1933, and partially unemployed are not taken into account since August. Comparisons between 1932 and 1933 are therefore approximate.

242.

ITALY

NEW "CORPORATIONS" POLICY. — The outstanding political event of January will be the discussion and vote on the Corporations Bill by Parliament. As foreshadowed in the Prime Minister's speech at the end of the last session of the Corporations Council, the Bill states that as many Corporations (Guilds) shall be created as the Government may deem useful, after taking the advice of the Central Corporative Council. The Corporations may represent single industries or groups. Several Corporations may be temporarily grouped for special purposes. Corporative Committees relating to special products may be formed.

By giving thus a flexible structure to the new bodies, the Government is trying to resolve the controversy over the "industrial group" and "product" conceptions of the Corporations. The most important point is the duties of the Corporations. They may give advice when requested — and sometimes the advice will be enforceable; they may act as mediators between employers' and employees' associations; and they may legislate. Previously in virtue of the Statute law of March 20, 1930, the National Corporations Council had the power to issue "orders for the regulation of collective economic relations"; but the power could be exercised only if requested by two or more interested associations and with the assent of the Prime Minister. Now a single Corporation will issue rules "for the regulation of collective economic relations and towards the unitary discipline of production". It can also regulate the prices of productive services in their respective fields. Such plans, rules and regulations are made on request 1) of a competent Minister, and 2) of one of the interested associations, with the consent of the Prime Minister. Plans, rules and regulations must be approved by the General Meeting of the National Council of Corporations and are compulsory when published in due form with a Decree of the Prime Minister.

The far-reaching economic changes embodied in the Bill cannot, of course, become a reality in a few days. The first task has been the reorganisation of the thirteen big Confederations, which now include all employers' and employees' associations. The Corporations are now to be liv-

242. January 13, 1934, pp. 66-67. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. The passing into law of the Corporation Council. Legislative powers of the Corporations. Shifting of functions from Confederations to Corporations. Reduction of costs and exports. A 4000 million loan. Financial statistics", dated "Turin, January 5, 1934", is kept in the Einaudi archives.

ing organisms and represent single industries or products and the big Confederations are to fall somewhat into the background. Employers' and employees' associations and federations, while maintaining, for purely wages, hours and other conditions of labour, their allegiance to national Confederations, will become directly part and parcel of the new Corporations. A new Chamber will be shortly elected, presumably in April next, on the same lines as the present, largely, that is to say, on a professional or corporative plan.

MORE WAGE CUTS LIKELY – Much attention has been given to a speech of Signor Asquini, Under-Secretary for Corporations, on the difficulties imposed on Italian exports by exchange depreciation, high tariffs and quotas. Starting from the announcement of a decrease of 15 per cent. in exports during the August-October period of 1933, compared with the corresponding period of 1932, and in face of a 5.5 per cent. increase in imports, Signor Asquini concluded that Italy must seek recovery in a reduction of costs. There are many costs, he said, which are kept on a high level. Cost must be reduced, Signor Asquini added, if Italy wished internal consumption to rise, because all producers whose prices have been reduced below the general level are gravely handicapped in their purchases. These very moderate Ministerial utterances were soon wrongly construed to foreshadow a general reduction in wages, salaries, rents, interests, prices, etc. It is safe to conclude that no general drive is in contemplation; but that continuous efforts will be made for a reduction of costs in the special fields where they are out of equilibrium with the general price level. A more recent speech by Signor Biagi stated that both employers' and employees' associations are revising their wage schedules in cases where old scales conflict with industrial and commercial exigencies. A recent cut of 10 per cent. in the winter wages of annually-engaged men in the rice district is an instance of the policy.

TREASURY CONVERSION OPERATION. – A loan of 4,000 million lire Treasury 9-year 4 per cent. bonds with bi-yearly premiums was announced yesterday. The loan is primarily intended to reimburse 2,915 million lire old 5 per cent. bonds, due for repayment in 1934. The surplus will reinforce the Exchequer. The reduction from 5 to 4 per cent. in the standard rate of interest paid by the State on 9-year bonds – the net yield, taking account of premiums, works out at about 4.60 per cent. – is taken as foreshadowing further conversions. The internal Public Debt proper was 97,712 million lire on November 30, 1933, of which 71,290 millions consists of 5 per cent. and $3\frac{1}{2}$ per cent. consols, 16,987 millions of 9-year and

other long-term redeemable bonds, and 9,435 millions of floating debt. Besides, there are the 1,607 million lire Morgan loan and long-term annuities for public works (these being estimated in a recent Budget Committee report as at present worth 20,137 million lire), which do not come within the range of conversions. The biggest block consists of 61,392 million lire of 5 per cent. consols; which, however, are not convertible by reimbursement until December 31, 1936.

As the money seeking gilt-edged investment is abundant, and there is little demand for land, houses or variable dividends securities, it is highly probable that if the Exchequer offered a new 4 per cent. consol assured against redemption for, say, 20 years, the great majority of holders would voluntarily tender for exchange their present 5 per cent. bonds, if only a small inducement of a few lire capital premium were offered to them. The price of 5 per cent. consols, which was on an average 82.40 for the year 1932, and opened 1933 at 86, is, to-day, at 96½ ex-dividend.

FALLING INTEREST RATES AND INCREASED SAVINGS. — The official discount rate, after remaining at 4 per cent. from January 9, 1933, to September 4, was then reduced to 3½ and on December 11th to 3 per cent. The private discount on high-class commercial paper was also reduced between January, 1933, and January, 1934, from 4-4¾ per cent. to 3½-4 per cent. Other financial indices are as follows:

	(Capital in million Lire)				
Joint Stock Companies	1929	1930	1931	1932	1933 *
New companies:					
Number	2,420	2,234	1,730	2,007	1,546
Capital	824	584	344	1,127	211
Companies increasing capital:					
Number	1,733	1,668	1,520	1,303	992
Capital	6,457	5,580	3,988	2,520	1,818
Companies wound up:					
Number	859	1,020	1,396	1,207	807
Capital	1,409	1,938	2,425	2,104	766
Companies decreasing capital:					
Number	547	614	1,103	1,076	919
Capital	1,227	1,542	3,335	2,794	2,326

* 8 months.

The reorganisation process is continuing; the net result being that the total capital of joint stock companies was, for 17,384 companies, 52,281 million lire at the end of 1930; was, for 18,518 companies, 49,602 millions at the end of 1932; and, for 19,257 companies, 47,539 millions at the end

of August, 1933. The rate of decrease is slowing and the average capital is decreasing.

Savings were as follows at the end of the periods concerned:

	(In million Lire)		
	1928	1932	1933 (October)
Postal savings banks	10,819	17,021	18,128
Ordinary savings banks	15,685	18,743	19,011
Public credit institutes	1,201	2,452	2,820
Ordinary banks	4,576	5,731	6,569
Popular banks	1,013	1,062	1,104
Regional banks	2,543	2,647	2,647
Public pawnshops	1,004	656	676

There is considerable shifting, in fact, between various groups. Discounts and advances by the Bank of Italy were as follows:

	(In million Lire)	
	Discounts	Advances
1928	12,402	16,568
1929	15,799	21,453
1930	12,425	18,985
1931	13,377	17,004
1932	8,819	13,439
1933 (11 months)	11,740	7,341

This is not, however, a complete index to business in Italy, as the Bank of Italy carries out public as well as private business; and, as in the aggregate the public business has probably increased, the decrease in private operations partly explains why the best outlet for old and new savings is still to be found in public issues.

Turin, January 6

243.

ITALY

ELECTIONS TO THE NEW CHAMBER

March 25th has been fixed for the election to the Chamber of Deputies of the 400 persons on the list to be presented to the electoral body by the

243. February 17, 1934, pp. 349-350. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original

Grand Fascist Council. In the meantime the associations and bodies specially designated have been convened to exercise before February 15th their right of nomination of 1,000 candidates among whom the Council will select the necessary 400 names. What will be the lease of life of the new Chamber is uncertain. The last utterances of Signor Mussolini seem to foreshadow a longer life than that which was prophesied until recently. The organisation of the "corporations" as really effective agencies for the guidance of the economic system will require some time. Meanwhile, following the experimental principle of Fascism, the Chamber will continue to be in being, until it is considered ready for supersession by the new Corporation Council.

The Stock Exchange had already received a fillip from the success of the 4 per cent. Treasury bonds issue, which testified an increasing acceptance by the saving public of the likelihood of a low long-term rate of interest. The average index number for variable dividend securities rose from 48.12 on December 31, 1932 (December, 1925=100), to 58.55 on December, 30, 1933, and 60.75 on January 27, 1934. A few details of shares prices may be useful to indicate the preferences of the public. April 1st is the date on which most dividends are declared.

(December, 1925=100)

	April 1, 1933	Jan. 27, 1934
Banking	76.34	80.36
Navigation and transport	33.80	34.19
Textiles	12.77	15.98
Mines, metallurgical and engineering	37.98	48.61
Electricity	51.04	67.89
Agriculture and real estate	66.91	71.58
Food and miscellaneous	62.12	82.94

The differences are wide enough. Banking, electricity, real estate and miscellaneous shares are the favourites, owing to greater stability of returns. The only shares, among those included in the Milan statistics, which have regained the level of 1925 are (December 31, 1925=100): – Bank of Italy (100.54); Risanamento Napoli (101.25), a real estate company; and Ligure Lombarda Zuccheri (104.16), a highly protected and prudently managed sugar concern. South of Italy Railway Company (96.23), Metallurgical of Italy (88.57), Adriatic Electricity (87.81), Edison Electricity (93.71),

manuscript, entitled "Italy. The new Chamber" and dated "Turin, February 6, 1934", is kept in the Einaudi archives.

Beni Stabili, Rome Real Estate (89.50), Italian Distilleries (95.90), and Pirelli Rubber Company (80.90) come near the 100 per cent mark.

Turin, February 13.

244.

ITALY

The year 1934 was marked by a keen effort to reduce the Budget deficit. In the three past financial years ending June 30, 1934, the average deficit reached 3,500-3,800 million lire, exclusive of an extraordinary sum of about 3,000 million lire spent in 1933-34 to pay anticipated interests and bonus to holders of 5 per cent. consols converted into 3.50 per cent. redeemable consols. The February conversion saved the Treasury about 800 millions net which, together with the 8 per cent. to 12 per cent. reduction in public servants' salaries and minor economies, kept the deficit in the first six months of the 1934-35 Budget year within 1,074.7 million lire, against 2,307.6 millions in the corresponding period of the previous year. The deficit for 1935-36 is estimated at 1,657 millions. As a result of the successive deficits the public debt increased from 91,442 millions on June 30, 1931, to 102,622 millions on June 30, 1934, and 105,164 millions on December 31, 1934. The last report of the Chamber Budget Committee emphasises the importance of payments due in future years for public works, land reclamation, afforestation, etc., which it estimates at 20,422 million lire.

WAGES AND UNEMPLOYMENT. — Since the reduction in wages in 1931 there has taken place, contrary to current impressions abroad, no general drive for new reductions in hourly wages. The 8 per cent. to 12 per cent. reduction in April, 1934, was limited to public employees' salaries. Reductions were sporadic. The index number of agricultural hourly wages (1930=100), was 83.2 at the end of 1931, 78.5 at the end of 1932, 76.5 at the end of 1933, and 75.2 in November, 1934. The corresponding in-

244. February 17, 1934, pp. 14-15. The article, unsigned, was published in the supplement: *The Economist. Commercial history & Review of 1933*. Its attribution is certain because a typewritten copy, without date but entitled "Commercial History", is kept in the Einaudi archives.

dexes of industrial wages was 89 in 1931, 86 in 1932, 85 in 1933, and 81.50 in 1934. The average yearly general cost-of-living index (1930=100) was 90.3 in 1931, 86 in 1932, 82.3 in 1933, and 78.1 in 1934. It thus appears that the industrial workers' standard of living is somewhat better now than in 1930; while agricultural labourers – who, however, are mostly paid in kind – have suffered in comparison. Of course, this is not the whole take; because earnings per family are more important to workers than wages per hour. Statistics published by the General Confederation of Industry seem to prove that the number of hands employed is increasing. The index of employment (1929=100) rose from a minimum of 75.84 in January, 1934, to a maximum of 87.62 in September, against 72.40 and 83.39 in the same months of 1933. The index of hours worked also rose from 69.14 to 85.66 in 1934, against a rise from 65.80 to 83.29 in 1933.

Unemployment is decreasing. In agriculture there were 336,384 unemployed at the end of 1933 and 211,320 at the end of 1934; in industry 692,172 at the end of 1933, and 638,050 at the end of 1934; and in commerce and private transport 103,701 in 1933 and 112,335 in 1934. The total fell from 1,132,257 at the end of 1933 to 961,705 at the end of 1934. This reduction must be partly due to the drive in December, 1934, for "work-sharing" in industry, by which weekly hours of work were reduced from 48 to 40.

AGRICULTURE. – Crops were mediocre in 1934. The yield of spring maize increased from 2.4 million tons in 1933 to 2.9 in 1934; of summer maize from 0.2 to 0.3 million tons; of rice (raw) from 0.61 to 0.62; of sugar beet from 2.1 to 2.7; and of potatoes from 2.4 to 2.7. The yield of hemp was unchanged at 0.05. But the two most important crops in Italy, wheat and grapes, decreased: wheat from 8.1 million tons in 1933 to 6.3 in 1934, and grapes from 5.4 to 5 million tons. Prices were kept at a good level in the interests of farmers, mainly by high duties or by absolute prohibition of imports and by quotas. The price of wheat did not fall below 800 lire per ton; and the price of rice has been kept by the Rice Board above 500 lire per ton by means of export premiums.

INDUSTRIAL PRODUCTION. – A new index, calculated by the Corporation Department (1928=100), gives industrial production in 1932 at 73 (minimum) and in 1933 at 80.5. The following are the monthly figures of this new index. (See table at p. 649).

Industrial recovery has been progressive. Apart from minor industries, the maximum expansion is to be noticed in the building industry (+67 per cent.), in which *entrepreneurs* are anxious to finish building before Decem-

ber 31, 1935, when the 25-years' tax exemption will end. Rayon (+29.4 per cent.) and electricity (+8 per cent.) also have good records.

	1933	1934
January	70.94	72.20
February	74.48	77.31
March	80.89	84.45
April	82.69	86.92
May	86.54	89.47
June	79.14	85.71
July	84.87	91.66
August	82.86	87.03
September	85.41	93.50
October	83.05	95.07
November	79.56	94.68
December	75.10	—
Average for the first 11 months	80.90	87.09

TRANSPORT AND TRADE. — To these improvements in the industry inland trade is apparently slow to respond. Goods carried by the railways remained in 1934 behind 1933 for the first nine months of the year. In the last quarter a slight improvement was visible. Actually, 24.7 million tons were carried in the first nine months of 1934, against 25.2 in the same period of 1933; and 8.7, against 8.5 in the last quarters. This unresponsiveness is perhaps due to transference of goods traffic from railways to the roads. The volume of sea-borne traffic in 1934, however, surpassed the 1929 level, the 1934 figure being 37.9 million tons for international and coastal trade, against 32.2 in 1933 and 36.8 in 1929.

INTERNATIONAL TRADE. — International trade appears to have touched bottom.

	(Million Lire)			
	Imports	Exports	Import Surplus	Decrease in the Bank reserves of the Bank of Italy
1928	22,213	14,999	7,314	1,035
1929	21,665	15,236	6,429	730
1930	17,347	12,110	5,228	717
1931	11,643	10,210	1,433	1,827
1932	8,268	6,812	1,456	838
1933	7,432	5,991	1,441	367
1934	7,665	5,232	2,433	1,540

The best symptom is the increase of imports, in so far as it is a token of industrial expansion. The last column shows that there is no necessary connection between the so-called passive balance of international trade and losses of gold reserves. The biggest loss in 1931 was

due to the credit and sterling crisis, which drew foreign gold deposits away from Italy.

MONEY MARKET. — The official rate of discount, reduced in 1933, was kept unchanged at 3 per cent. from December 11, 1933, till November 26, 1934, when it was raised to 4 per cent. The private commercial rate of discount remained stable at 3 per cent. to $3\frac{1}{2}$ per cent. for the first ten months of the year; and rose gradually to $3\frac{3}{4}$ per cent. in November and $4\frac{1}{2}$ per cent. in December. The rate on financial paper and the securities end-of-month settlement rates were more erratic. It was possible to raise money on State securities at as low a rate as 3 per cent.; and even on industrial equities the rate did not rise above $5\frac{1}{2}$ per cent. The rise was not due to any slackening in the volume of new savings, as the yearly increase in banks and saving-banks deposits, which was 2,900 million lire in 1930 and 4,300 millions in 1933, was still about 3 billions in 1934, although the Treasury bond issues of 4,000 millions in January and 2,000 millions in November absorbed a considerable slice of the new savings.

The official rate of discount appears to have been raised mainly in defence of the gold and gold exchange reserves of the Bank of Italy, which decreased by 1,540 millions to 5,796.5 millions between January 1 and December 10, 1934. As a result of this a decree of December 8th put the foreign exchanges market under strict regulations. On December 31, 1934, the reserve had risen to 5,883.2 millions.

If not buoyant, the Stock Exchanges have been fairly active. The index number of 34 leading shares (December, 1925=100) rose from 48.12 in 1932 and 58.65 in 1933 to 65.14 at the end of 1934. New public issues of shares, which in the previous three years averaged 731 million lire, amounted in the first ten months of 1934 to 1,177.2 million lire. The increase is mainly attributable, however, to financial reconstructions.

245.

ITALY

CONVERSION SUCCESS. — The 61,000 million lire conversion from 5 to 3.50 per cent. has been a big success. The success of the issue is the result of a marked movement of savers toward gilt-edged investments. The Treasury was quick to sense the trend of the movement. The average saver is still chary of risky industrial and agricultural investments and anxious to invest in State and other public securities. This was therefore the psychological moment for a far-reaching conversion of the public debt. Out of a total internal public debt of 98,029 million lire, 61,393 millions was in 5 per cent. Consols. Unfortunately, Consols were not convertible by reimbursement until December 31, 1936. This apparent obstacle to conversion, however, proved instead to be a condition of success. By a stroke of what might almost be called financial genius, the Treasury decided to request the bearers of 5 per cent. Consols to declare *at once* if they desired to be reimbursed on January 1, 1937. If they prefer reimbursement, nothing is to be changed in their respect; the interest of 5 per cent. will continue to be paid regularly for the three intervening years, until on January 1, 1937, the full nominal 100 lire capital will be due for reimbursement. The assenting holders, however, will receive in cash the full difference between interest for three years at 5 per cent. and interest at $3\frac{1}{2}$ per cent., i.e., 4.50 lire. They will also be exempt from all direct taxation and will receive 10 million lire in premiums (three of 1 million lire, six of 500,000 lire and 40 of 100,000 lire each) for every 1,000 millions assenting capital, to be drawn on December 20, 1934. The offer of 4.50 lire and the hope of a big premium in December next have caused something like a stampede in favour of the new 3.50 per cent. Consols. This new offer was a complete success. Out of a total of 61,400 million lire of the 5 per cent. Consols, only 123.3 millions have not been converted. The present conversion is a record in the financial history of Italy, the only comparable one being the 8,100 million lire 1906 conversion by Luzzatti-Majorana from 4 to 3.75 and, after five years, to 3.50 per cent. The amount to-day, taking account of the change in the gold content of the

245. March 10, 1934, p. 518. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Market reaction after the success of the conversion" and dated "Turin, February 27, 1934", is kept in the Einaudi archives.

lira, is more than double, and the immediate reduction is from 5 to 3.50 per cent.

After this conversion, the market in Consols experienced a setback, which is attributed mainly to sales by discomfited bulls. Before the conversion was announced, speculative operators, not always financially strong, were busy buying $3\frac{1}{2}$ and 5 per cent. Consols, trusting that the prices of both would go above par before conversion. As conversion was deemed certain, speculation for the rise was regarded as a safe bargain. The suddenness of the conversion announcement, before par was reached, confronted many operators with the necessity of covering by sales. But during the conversion week liquidation sales were not easy. Therefore when markets were again active, prices went down, old $3\frac{1}{2}$ per cent. Consols closing at 90.75 at the end of last week and new redeemable $3\frac{1}{2}$ per cent. at 94. It is said that actual prices were even lower, down to 88 and 92. The fundamental tendency, however, is towards a fall in the yield of gilt-edged securities. On February 22nd the *Official Gazette* published a decree authorising the Land and Real Estate Mortgage Institutes to convert their bonds (*cartelle fondiariae*) from 6 and 5 per cent. to lower rates; and it is believed that a similar authorisation will be given to all public bodies and companies that have issued debentures at 5 per cent. or more.

EXCHANGE REGULATIONS. — A temporary tightening of the foreign exchange regulations was experienced in the last two weeks. Foreign cheques were not negotiable at prices different from those officially quoted. For a few days foreign exchange disappeared from the market, and importers had to rely exclusively on the Bank of Italy. Now the stringency is relaxed and the private market is reviving.

A lively debate in the daily press has followed the publication of an essay by Senator Agnelli in *La Riforma Sociale*. The president of the Fiat Company advocated the organisation of exports under the ægis of corporations. Goods exported should be sold collectively to foreign countries at world prices. If producers lost on the transaction, the loss should be borne by a rise in the price of imported goods. Professor De Stefani, in *Corriere della Sera*, criticising the details, reaffirmed the thesis that foreign trade is becoming more and more a matter of public concern. Collective agreements regarding the quantities and prices of goods to be exchanged between two or more countries are bound to grow more numerous in future. On these plans to collectivise foreign

trade cold water was poured by Signor Asquini, Under-Secretary for Corporations, in a speech to exporters of vegetables and fruits. Producers must rely mainly on their own efforts, without asking too much from the Corporative State. Reduction of costs must be the true foundation of an expansion of exports.

ECONOMIC INDICES. — Meanwhile, foreign trade in January continued to contract.

	(In million lire)	
	1933	1934
Imports	667	643
Exports	453	407

Other economic indices for January, however, showed an improvement.

	January 1933	January 1934
Production (tons):		
Pig-iron	41,746	44,082
Steel	127,496	142,229
Benzine	11,320	12,460
Goods carried for private account on State railways (tons)	2,613,167	2,682,864
Goods cleared in the ports (tons)	2,467,410	2,608,242
Unemployed (wholly), number	1,225,470	1,158,418
Number of failures, ordinary	981	756
Small	676	581

	(In million lire)	
Figures for State Budget and Circulation:		
State revenue	1,652	1,585
State expenditure	1,871	1,819
Internal State debt at month end	96,317	98,117
Circulation	13,433	13,067

Thus the upturn in the trade cycle seems to be as general in Italy as elsewhere, though confined to internal trade.

Turin, March 2.

246.

ITALY

OUTBURST OF PESSIMISM. — Even before the drastic salary cuts (which we discuss in a Note of the Week on page 866) were announced by Signor Mussolini this week, a wave of pessimism had overwhelmed the Stock Exchange. The dominant feature was the fall in the new $3\frac{1}{2}$ per cent. redeemable conversion loan, which from the high peak of about 98 on the eve of conversion has fallen to 87-88 lire. The weakening of the lira on the exchange market and the reduction of gold reserves below the 7 milliard lire level has contributed to the general pessimism. This feeling is not attributed here to political causes. Apart from the general European situation, and the disarmament crisis, about which Italian public opinion does not seem to be much concerned, satisfaction is felt at news of the reorganisation of the Danubian States under the Italian aegis. The plebiscite had triumphant results and Signor Mussolini and Fascism seem to be more firmly than ever in the saddle.

Stock Exchange pessimism is attributed here to more superficial reasons. The only one which is mentioned in the financial circles is the technical situation of the markets. Many big and small operators bought 5 per cent. consols freely on the assumption that the price ought to rise above 100 before conversion was possible. The Treasury caught them with the announcement of the conversion before they were able to cover. Their subsequent unloadings encouraged some speculative sales.

There is evidence, however, that profits were better in 1933 than in the previous year. A preliminary investigation conducted by the *Borsa* of Milan on the basis of the yearly accounts of 261 joint stock companies, with a total capital of 14.2 milliard lire, or 30 per cent. of the total 47.9 milliard joint stock company capital, gives the following results. (See table at p. 655).

Apart from 1930, which was influenced by the big writing down of the Snia Viscosa capital, the bottom of the depression, as measured by profits, was reached in 1932. In 1933, out of 261 companies 110 increased profits 17 decreased losses, and 17 converted a loss into profit; and three were le-

246. April 21, 1934, pp. 874-875. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luiti Einaudi is certain because the original manuscript, entitled "Italy" and dated "Turin, April 11, 1934", is kept in the Einaudi archives.

vel on the year. A few companies, such as Fiat and Snia, are big creditors on their banking accounts; and a few, while not distributing profits, have increased capital in excess of working needs.

(Capital and profit figures in million lire)					
	1929	1930	1931	1932	1933
Accounts showing profits:					
Number of companies	239	222	214	206	214
Capital invested	13,150	12,587	12,501	12,057	12,852
Profit	1,515	1,315	1,100	930	1,007
Percentage on capital	15.8	12.0	8.1	7.7	7.9
Accounts showing losses:					
Number of companies	24	31	38	47	42
Capital invested	269	1,629	662	1,127	588
Loss	66	781	305	396	121
Percentage on capital	24.7	47.7	46.4	39	20.7
Total:					
Number of companies	268	259	261	261	261
Capital invested	13,453	13,432	13,862	13,965	14,153
Profit	1,449	534	794	534	886
Percentage on capital	10.8	4.0	5.8	3.9	6.3

LIQUIDITY OF THE BANKS. — Thus the ordinary banks may claim that their liquidity is greater than ever. This means greater liquidity at the Central Bank. In the current number (April) of *La Riforma Sociale* (Turin) some figures are given of the main variations in the end-of-year accounts of the Central Bank. We reproduce a few of them for December 31, 1927 (stabilisation of the lira), for 1929 (beginning of the world crisis), for 1932 (assistance to banks with frozen assets), and for 1933:

(In million lire)				
	1927	1929	1932	1933
Gold and gold devisen reserves	12,106	10,341	7,144	7,397
Notes issued	17,992	16,774	13,672	13,242
Other current liabilities	5,291	4,886	5,765	4,200
Total liabilities	23,283	21,660	19,437	17,442
Excess of liabilities over reserves	11,177	11,319	12,329	10,045
Discounts, advances and securities:				
Commercial	6,836	7,594	5,213	4,954
In aid of banks with frozen investments .	1,606	1,307	5,088	2,722

Signor Mazzucchelli rightly concludes that the worst point of the crisis was reached at the end of 1932, when there was a maximum excess of liabilities over gold reserves and a maximum amount of resources was devoted to aid embarrassed ordinary banks by taking over their frozen invest-

ments. At the end of 1933 the situation was wholly changed: the excess of liabilities over reserved had been reduced to a minimum and frozen assets had been halved.

This result was achieved mainly through the transference of investment business to special semi-public bodies, the Istituto Mobiliare Italiano and the I.R.I., to which must be added the three Public Credit Institutes (for Public Works, for Public Utilities, and for Naval Credit) presided over by the president of the I.R.I., Signor Beneduce. The joint stock company and other business capital put under the management of the I.R.I. is something like 10 to 12 milliard lire.

The Bank of Italy's report by Governor Azzolini furnishes interesting details of the new methods of financing industry and trade adopted in the last decade. Issues of bonds are gradually taking the place of risky financing by banks with current accounts deposits. During 1933 the I.R.I. issued 1,400 million lire bonds to banks with liquid resources. From December 31, 1922, to December 31, 1933, the total amount of bonds circulating in Italy increased from 3.5 to 19 milliard lire, which includes 6 milliards issued by the three above-mentioned Public Credit Institutes, 5.6 milliards issued by the older Credit Foncier Institutes, and 4 milliards by joint stock companies. This is a sound development, and, apart from Credit Foncier bonds, practically new for Italy.

Turin, April 16.

247.

ITALIAN BANKING

The Italian banking system has many features similar to those of the French system, which was described in the *Economist* of February 3rd. Among these are the limited use of cheques and the greater use of notes as a means of payment, and the general preference for bearer bonds and shares. In Italy, as in France, it is not always easy to define a bank in practice, but if all intermediaries between the savers and investors of capital and the users thereof be included, it is possible to discern three main

247. April 28, 1934, pp. 928-929. The article, unsigned, was published in the section: "Money and Banking". Its attribution to Luiti Einaudi is certain because the original manuscript, without date and title, is kept in the Einaudi archives.

groups. These groups, which are surveyed below by our Turin correspondent, consist of banks proper, savings banks, and public institutes.

The Bank of Italy was made the sole bank of issue by the Fascist Government, when Signor De Stefani was Finance Minister, but it is not a purely central bank in the British or American sense of the term. It really springs from the Banks of Genoa and Turin, which were both founded by Cavour in the 'fifties at a time when few banks existed in Italy and deposits were hardly known. From its inception it undertook the duty of issuing notes as a means of providing industry and trade with credit, and as other banks came into existence it also began to rediscount for them; but it did not relinquish its direct connections with its customers. To-day it resembles the Banque de France, in that it operates 91 branches in Italy and 6 in the colonies, and enters into direct competition with the commercial banks. For this last reason its control over credit conditions is less effective than if its operations were restricted to rediscounting for the other banks.

Nevertheless, the Bank of Italy is endowed with certain legal powers of control. It supervises all banks on behalf of the Treasury. It makes regular inspections, and advises the Treasury on such matters as the foundation of new banks, the amalgamation of existing banks, the opening of new branches, and even the giving of authority to a bank to extend credit to an individual customer in excess of the maximum proportion of the bank's resources, as laid down by law. On the other hand, its powers of credit control by the use of its rediscount rate or through open-market operations are, as already stated, very limited, and in normal times the commercial banks are able to remain independent of the Bank of Italy. It does, however, intervene in times of crisis as "the lender of last resort", and in 1893, in 1920, and again in recent years it took over from the commercial banks certain of their frozen assets.

The banks proper or commercial banks, which had relations with the Bank of Italy, comprised at the end of 1932 336 joint-stock companies and 223 private firms. Until recently they did not restrict themselves to purely deposit banking business as defined in England. In fact, during the decade immediately preceding the recent crisis they became more and more inclined to provide industry and trade with finance for building and equipment purposes and to engage in the underwriting of bond and share issues. In justification of this departure from strict banking practice, it may be said that there is in Italy no group of strong issuing houses with their attached underwriters, but that all introductions of new issues on to the Stock Exchanges have to be made through the banks. Nor is it easy to deduce from

their balance sheets how deeply the banks became involved in this less desirable kind of business.

The position of the banks at the end of 1932 is summarised in the following composite table. All figures represent milliards of lire:

LIABILITIES		ASSETS	
Capital and reserves	4.7	Cash and sight deposits	2.5
Deposits	9.6	Discounts	16.1
Correspondents, current accounts and sundry creditors	22.0	Advances	3.2
Circulating cheques	0.5	Securities	4.0
		Correspondents, debtors	7.3
		Other items	3.7
	<hr/> 36.8		<hr/> 36.8

Prima facie, the liquidity of the banks, as measured by their cash, was not very pronounced. If discounts are included in reserves, the liquidity is greater, but it is difficult to say what proportion of the discounts related to commercial self-liquidating transactions and what proportion to business of a more indefinite financial character. In any case, the position has greatly changed for the better during the past two years. Frozen assets have now been transferred to the new public institutes, such as the Istituto di Ricostruzione industriale (I.R.I.), and the banks are now confined to strictly banking business. The main difficulty at the moment lies in the low level of discount rates. The average rate payable on deposits is 2 per cent., to which a further 2 per cent. must be added to cover working expenses. Against this, fine trade bills to-day only yield 3 per cent., so that it appears that the banks must discount a certain number of finance bills and grant a certain quantity of unsecured advances at rates of 5 to 7 per cent., in order to pay their way. Still, within limits, such business should be safe enough.

The total number of savings banks amounted to 129 at the end of 1932. Their deposits then amounted to 17.7 milliard lire, but have since risen to 20.6 milliards at the end of 1933. This capital came to 1.3 milliards and their remaining resources to 1.8 milliards. Correspondents and current accounts, both debtor and creditor, which loom so large in the accounts of the commercial banks, are conspicuously lacking, and the savings banks' resources consist almost entirely of time deposits. Hence their assets can take a less liquid form. At the end of 1932 they included gilt-edged securities, 6.9 milliards; loans guaranteed by mortgage or other collateral, 5.2 milliards; and discounts, only 2.2 milliards.

Allied to savings banks are a host of small local co-operative institutions (popular banks, rural banks, agricultural credit institutes) numbering

2,532 at the end of 1932. Their capital and reserves then amounted to 800 million lire, their deposits to 5.2 milliards, and their remaining resources to 2.7 milliards. Their function is to finance farmers, peasants and the smaller manufacturers. In the main this kind of business is very sound, and there are comparatively few failures. Some of the banks in this group are quite large institutions, representative of the best traditions of commercial banking. At the other end of the scale, where the mortality is greatest, come a number of small rural banks, often operated by inexperienced and credulous priests. Taking the group as a whole, the biggest item on the assets side is 2.9 milliard lire of discounts. Investments, mainly gilt-edged, come next with a total of 1.8 milliards.

The third main banking group comprises the public institutes. First there is the Deposits and Loans Bank (Cassa Depositi e Prestiti) with liabilities of about 25 milliard lire, of which 18.7 milliards are postal savings deposits. It is primarily a State Bank, and 9.8 milliards of its assets consist of loans on current account to the Treasury. These are a useful substitute for the former Treasury bills, whose issue was suspended in 1926. Long-term loans, amounting to about 6 milliards, are also granted to local authorities, provinces, municipalities and other public bodies. Its remaining assets consist of State securities and miscellaneous investments.

Other public institutes comprise the Istituto Mobiliare Italiano (I.M.I.), the Istituto di Ricostruzione Industriale (I.R.I.), and other and more specialised institutes such as the Istituti di Credito Fondiario (for real and agricultural estate financing), and the Institutes for Naval Credit and Credit for Public Works. There must also be included here the two former banks of issue, the Banks of Naples and Sicily. All these institutions are concerned primarily with the long-term financing of land, agriculture and industry, and the I.M.I. also holds, directly or through subsidiaries such as Sofindit, the frozen assets recently taken over from the commercial banks. They obtain their own finance directly from the Cassa Depositi e Prestiti and the social insurance funds. Through this chain of finance the Treasury is able to maintain strict control over a large part of private industry.

The Italian banking system is clearly of a diversified character, but much of it is now of well-established growth. Its total resources now amount to about 100 milliard lire, of which about 40 per cent. are in the hands of the commercial banks, 25 per cent. in the hands of the savings banks, and about 35 per cent. in the hands of public bodies. The public character of credit thus predominates, but whereas in Germany this public control was the outcome of the war and subsequent troubles, in Italy it was

only intensified by the recent crisis. In some degree public control has been in existence since many years before the war. Moreover, the Italian banking system is not of mushroom growth. It has survived the crises of 1893, 1914 and onwards, and 1929-33, it is now guided by men of experience, and in its present variety may lie much of its strength.

248.

ITALY

BUDGET DEFICIT AND THE GOLD RESERVE. — The principal features of the speech from the Throne at the opening of the new Parliament were the announcement of the long-awaited constitutional reforms and the declaration of the Government's intention to balance the State budget. The conversion of the 5 per cent. Consols to 3½ per cent., the reductions of from 6 to 12 per cent. in public servants' salaries, and the increase of taxation on bachelors will save the Treasury about 1,200 to 1,300 million lire, thus reducing the deficit from 4,000 to 2,700 millions. As prices of supplies to the army, navy and civil services are falling, the deficit should be further reduced to about 2,000 million lire.

The publication of the Bank of Italy's last return has been well received, since the gold export movement has been checked. The gold reserve diminished from 7,397 million lire on December 31, 1933, to 6,878 million lire on April 20, 1934. By April 30th the total reserve had increased to 6,879 million lire. Various reasons have been suggested to explain the decrease of 518 million lire in the first quarter of the year: the increase of 83 million lire in imports and the reduction of 215 millions in exports; the repatriation of a certain amount of 5 per cent. Consols sold by Italians living abroad under the combined pressure of the fall of the dollar and the decrease in the net yield of Consols; the strict enforcement of regulations forbidding sales of foreign exchange at prices different from official quotations, which made the market wholly dependent for a time on the Bank of Italy's reserves. All these factors now seem to have ceased operating.

248. May 26, 1934 p. 1141. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. New Parliament and State budget" and dated "Turin, May 9, 1934", is kept in the Einaudi archives.

The security markets are also less pessimistic than in the first weeks of April. The pivotal security at present is the new (conversion) $3\frac{1}{2}$ per cent. Consols, which rose from a closing April price of 79.50 to 82.40 last week. Not only fixed-interest, but also variable interest stocks are reflecting the fluctuations of $3\frac{1}{2}$ Consols. Operators seem to believe that the fortunes of industry are strictly dependent on the State's fortunes, and the higher capitalisation of Consols, being the index of a stronger public Exchequer, is bound to react favourably on the price of industrial shares.

REDUCING THE COST OF LIVING. — The daily Press devotes much space to the campaign for the reduction of retail prices, which is supposed to offset the recently enacted reduction in public salaries and of house rents. Retailers are in some cases being expelled from the Fascist Party. Evasions through changes in the quality of goods sold are also denounced. The cost-of-living index of the Central Statistical Institute (June, 1927=100) was 73.78 in March, 1934, a decrease of 26.22 per cent. since the last pre-stabilisation year (1927). According to a careful study by Signor Lenti in *Industria Lombarda*, the cost of living decreased between 1927 and 1933 by 26.77 per cent. for food, 47.50 per cent. for clothing, 34.18 per cent. for fuel and lighting, 14.82 per cent. for miscellaneous items; while there was an increase of 10.99 per cent. for rent. The total cost of living decreased by 23.43 per cent. It thus appears that the cost of living was already down by 25 per cent. before the recent decree had reduced public salaries (adding the present scaled reduction to the previous uniform 12 per cent. one of 1930) by from 12 to 24 per cent. The national index of wages for 1933 is 85.5 (July, 1928 - June, 1929=100), or a decrease of 14.5 per cent., which is somewhat less than the simultaneous reduction of 20 per cent. in the cost of living.

How far reductions in wages in private industry would enable reductions in prices to meet competition from Great Britain, Japan and other countries with depreciated currencies is a topic much discussed in the employers' and employees' technical Press. On the whole, wages are not thought a major issue. It is true that according to Professor Bachi's index — the Milan indices give identical results on a 1913=100 basis — raw material prices stood in March, 1934, at 235.7, and finished products, which are more heavily weighted with wages, at 358.9. But exports do not seem to have been adversely affected, the index for import prices being 302.8, for home-trade prices 275.5 and for export prices

209.5. In 1927, the stabilisation year, indices were, respectively, 492, 505.7 and 462.5. Export prices have therefore been more drastically reduced than import prices.

Turin, May 22.

249.

ITALY

SIGNOR MUSSOLINI'S IMPORTANT SPEECH. — The point in Signor Mussolini's speech on May 26th which aroused most interest in business circles was the announcement of new foreign exchange regulations. More or less similar regulations had already been enforced by internal orders of the Fascist Banking Confederation, which bankers and brokers must observe. Henceforward, no foreign cheques will be obtainable without proving the necessity of paying for goods purchased or defraying legitimate travelling expenses. Banks, industrial and commercial companies and firms must periodically notify to the Bank of Italy the net amount of foreign exchange possessed in Italy or in foreign places. Nobody is authorised to buy foreign securities or Italian securities issued in foreign places. Notes of the Bank of Italy or cheques issued in lire cannot be exported or sold in foreign countries without licence; and a maximum sum of 5,000 lire is fixed for travelling expenses. A special licence of the Finance Minister is required for opening lire accounts in favour of foreign banks or firms, discounting lire bills issued by foreign firms against their Italian correspondents, or by Italian firms in favour of their foreign correspondents. Lire bills issued by Italian exporters against foreign firms are discountable only if accompanied by invoices of goods sold. Banks, money brokers and commercial firms are bound to exhibit all their books or documents at the request of the Bank of Italy. In case of contravention of the regulations, the payment of a fine up to the amount of the whole value of securities or transactions can be ordered by the Finance Minister.

Signor Mussolini justified the introduction of restrictions on the follow-

249. June 9, 1934, pp. 1253-1254. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Foreign exchange drastic restrictions" and dated "Turin, May 28, 1934", is kept in the Einaudi archives.

ing grounds: 1) The deficit in the commercial foreign balance continues at a high level, 965.8 million lire in the first four months of 1934, against 552.6 millions in the same period of 1933; 2) the gold reserve of the Bank of Italy has been reduced since January, 1934, by about 600 million lire. As the note circulation has decreased meanwhile by about the same sum the situation does not appear to have changed appreciably for the worse. Signor Mussolini appears to be mainly concerned, however, with the causes of the gold losses. He attributes one-third of the 600 millions loss to wilful export of capital, lire notes or lire securities, which the Treasury, he observes, is bound to buy back in foreign centres. Hence the drastic exchange restrictions.

In your correspondent's opinion, the present Italian balance of payments is not so precarious as capital exporters presumably imagine. Export of capital is a psychological fact which feeds on rumours and fears. According to authoritative statements by the Prime Minister and the Finance Minister, rumours and fears were afloat about new taxes or new taxation devices; abolition of bearer securities, taxation at the source of dividend coupons, a new levy on capital, compulsory investment of joint-stock companies' reserves in State securities. Signor Mussolini's speech should put an end to these fears. In the first place, the deficit will be halved by economies, conversion of 5 per cent. Consols into 3½ per cent. redeemable bonds, the reduction of public servants' salaries, and other economies. In the second place, no new taxes or taxing devices will be imposed.

CAPITALISM ON THE DOLE. — In industrial and financial circles there arises from time to time a vague feeling that Signor Mussolini may turn Socialist. Business opinion is in favour of corporativism, but it would be very much more favourable, were there not some misgiving about a certain mystic affinity between corporativism and Socialism. Utterances by young philosophers and old syndicalists cause uneasiness. Signor Mussolini, however, has allayed these fears. He is not moving, he affirms, towards State capitalism or State Socialism. But, he says, nevertheless, that Italian bankers, financiers, capitalists, industrialists and agriculturists have done all they could to force him and the State towards State Socialism. They have done business badly, and when they have lost their depositors', creditors' and shareholders' hard-won money they have asked for State aid. At the present moment, the State is giving aid, through the I.R.I., to three-fourths of the Italian industrial and agricultural economy. Signor Mussolini here

refers to the big banks and big businesses, not to medium or small-sized firms. If he chose, he adds, he could turn State capitalist or State Socialist. But it would be the fault of the capitalists and bankers and financiers, not the fruit of his own will. Instead, he is resolved to put an end to these grants-in-aid.

Since the celebrated speech of August, 1926, at Pesaro, this is the most pointed and timely of Signor Mussolini's economic speeches.

Turin, June 2.

250.

ITALY

ITALIAN OPINION AND THE GERMAN EXECUTIONS. — Since Parliament went into recess, political interest has been centred on the meeting at Venice between Signor Mussolini and Herr Hitler. The Press have emphasised the beneficial results of personal acquaintance and of a mitigation in the violence of Nazi propaganda in Austria. News of the recent executions in Germany was unexpected and received here with bewilderment. No comments are as yet forthcoming. The newspapers have simply printed long reports from their Berlin correspondents.

The *Official Gazette* has published the decrees creating the 22 corporations which are henceforth to regulate Italy's economic life. Some of these corporations, such as that for textiles, apply to the whole economic process from agricultural production, through industrial manufacture, to retail sale. Others, such as those for the building, metallurgical and engineering industries, are limited to industry and commerce. A third group — professions and arts, internal communications, sea and air, hotels and tourist traffic, credit and social insurance, public entertainments — are sectional and specialised. Before October 28, 1934, the Corporations will actually come into existence. Nominations by employers' and employees' associations and other bodies will take account of big, medium-sized and small firms, so as to keep an even balance between them. The big confederations of employers' and employees' associations are not to be dissolved; but the centre

250. July 21, 1934, pp. 114-115. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain according to Graham Hutton.

of gravity of our economic administration will be transferred from them to their component federations, which will be more or less reconstructed so that two employers' and employees' confederations will correspond to every Corporation. The confederations will remain as a connecting central link. There is much anxiety, not so much in the labour world as in the employing classes, about the working of the Corporations. Many employers fear interferences in sales, competition, prices and extensions of plants.

A Departmental Committee continues to be busy examining and reporting on the question of new ventures and extensions of plant. A firm intending to start or extend an industrial enterprise in the regulated field must answer the following questions: – What goods do you intend to produce? What capital is to be invested? What machinery, national or foreign, steam or water power, is to be used? What engines, yearly electric power, yearly hours of labour, and raw material are to be used? Are they to be Italian or foreign? An estimate of employees, directors, clerks, accountants, engineers, chemists and other technicians, working men, males and females, national and foreign, has to be given; and the length and nature of the productive process, the capacity of the intended new plant or extension and the proposed market for the goods have to be stated.

As an instance of the field of action which the Corporations are likely to occupy we may quote a lively discussion between the *Lavoro Fascista*, a daily organ of the industrial employees' confederation; and the sugar consortium. The sugar producers were accused of keeping prices much too high, 6.30 lire per kilogram retail, of which 4 lire is Excise tax and 2.30 the total cost of beet production, sugar production and refining and retailing. The outcome of the discussion was that the interested parties saw their way to reduce by 0.50 lire per kilogram the price of sugar used for marmalade, of which the consumption is extremely limited, owing to the high price of sugar.

MORE BUDGET CUTS. – At the last session of the Cabinet Budget estimates for 1934-35 were reduced by a further 396 million lire. Together with the previous reductions of 900 millions for debt conversion, 410 millions for reductions of public employees' salaries, and allowing for the 55 million lire increase in the yield of bachelor's tax, the reduction in the estimated deficit for 1934-35 stands at about 1,760 million lire. For the first eleven months of the current financial year (July, 1933, to May, 1934) the deficit is 6,803.1 million lire, of which 3,059.7 millions are due to the an-

ticipated interest payment for three years to December 31, 1936, and other expenses incidental to the conversion of 61,000 millions of consols from 5 per cent. to $3\frac{1}{2}$ per cent. The total internal debt during the same eleven months increased by 5,000 million lire from 97,215 million to 102,224 million lire. As usual, the increase of debt, 5,009 millions, is less than the total deficit, 6,803 millions, because the deficit is a book-keeping figure, while the debt is a cash transaction.

Pessimists are disquieted by the reduction of the total gold and gold exchange reserves from 7,398.6 million lire on January 20th to 6,502.7 millions on June 30th. On June 30, 1933, the total reserve was 7,087.8 millions, so that the decrease appears to be less than 600 millions, a not excessive amount in a year of dwindling trade. In the first five months of the year foreign trade was as follows:

	Imports (Million Lire)	Exports	Import Surplus
1933	3,121.0	2,491.3	6729.7
1934	3,265.3	2,116.6	1,148.7

The balance of payments was eased by other items. Foreign tourists' expenditure appears to be better: 810,876 foreigners entered Italy in the first four months of 1934, compared with 616,919 in the corresponding period of 1933; and the percentage occupied of total beds in reporting hotels was 40.42 per cent. in the first four months of 1934, compared with 38.87 in the same months of 1933.

The most probable cause of the rising import surplus is the level of costs and prices. According to Professor Bachi's index, the price level of goods produced and consumed in Italy stood in May, 1934, at 272 (1913=100), the price level of imports at 302.2, and of goods exported at 205.7. It seems that we pay relatively more for goods which we are bound to import and that we sell our exports at a relatively low price. The differences are not so marked in the Corporative Economic Council of Milan index, which stands at 269 for goods produced and consumed at home, 293.2 for imported goods, and 216.2 for exported goods.

In a world of high tariffs, quotas and restrictions, a country which exports fine and varied agricultural and industrial goods as against raw materials and heavy imports is bound to suffer. Equilibrium can, of course, be reached only by reducing costs; but it appears from the above figures that the most rigid costs are imported materials. The scaling down of Customs tariffs is therefore the first condition of a return to equilibrium.

Turin, July 16.

251.

ITALY

HOME AND FOREIGN POLITICS. — Public opinion in Italy is centred wholly on the international situation. In consequence of the murder of the Austrian Chancellor Dollfuss, the outlook and attitude of the Italian Press became sharply critical of German policy. To the unanimous opposition voiced against the *Anschluss*, there is now added a less marked but significant criticism of Hitlerism in its bearing on the Saar question, the German labour problem and the handling of Germany's economic crisis. A recent decree authorising expenditure for the fiscal years commencing in 1934-35 of the sum of 1,200 million lire for renovation of the air fleet and replenishment of stores, had been already announced in Signor Mussolini's speech of May 26th, but it was published on August 7th, when the international situation had become more tense.

A sensation has been caused by the expulsion from the Fascist Party of Signor Arpinati, former Under-Secretary of State for Home Affairs under Signor Mussolini, and also of a score of his Bolognese friends. Later Signor Arpinati was condemned to five years of deportation to the Islands (*confino*).

NEW INDEX OF PRODUCTION. — For the first time the Corporations Department is able to publish a comprehensive index number of production, which can be compared with those published by the *Economist* for Great Britain, and with other indices in foreign countries. A special committee presided over by Professor Amoroso has recently approved the report written by Professor Cianci, in which are laid down criteria for compiling five special indices for textile, metallurgical and engineering, paper, building, and light and heat industries. On the basis of 1928, the general index works out as follows:

251. August 25, 1934, pp. 355-356. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Politics international and national. A new index of production, more employment. Control on new industries. Fall of gold reserve and the credit policy", dated "Turin, August 10, 1934", is kept in the Einaudi archives.

1928	100.00	1934 - January	72.20
1929	109.15	February	77.31
1930	100.31	March	84.45
1931	84.72	April	86.92
1932	72.93	May	88.88
1933	80.49		

The bottom seems to have been touched in 1932. A 10 per cent. increase from that date for the year 1934 may be deemed certain.

A comparison between unemployment totals in different industries in May, 1933, and May, 1934, gives the following results:

	Decreases			Increases	
	May, 1933	May, 1934		May, 1933	May, 1934
Agriculture	207,039	157,949	Iron & steel, engineering	105,079	108,602
Mining	34,360	30,756	Gas and electricity	9,398	10,390
Food	27,442	19,632	Building and roads	274,839	309,607
Textiles and clothing	128,880	92,590	Furniture and woodwork	48,160	52,959
Chemical and glass	28,440	22,119	Paper and printing	11,705	12,014
Hotels and other public establishments	34,679	24,978	Entertainments	11,136	18,423
Transport (private)	27,504	25,899	Commerce	51,467	55,339

The greatest reduction in unemployment has taken place in agriculture, food, textiles, hotels. Constructional industries, producing mainly goods for capital equipment, have not fared so well.

CONTROL OF NEW INDUSTRIES. — That recovery is in progress may also be deduced from the number of applications considered at the last session of the Ministerial Committee which is called to grant licences to start new industrial plants or to enlarge old ones. Out of a total of 102 applications, the Committee gave its assent to 68, negatived 25, and called for further information for 9. The official *communiqué* only gives the numbers in broad categories of industry. Since one of the postulates of planned economy aiming at the prevention of crises is Government control of new industries, it would be more helpful if fuller data on the interesting Italian experiment were forthcoming. Ex-Minister De Stefani has repeatedly hinted in the *Corriere della Sera* at unforeseen consequences of this "licence" system: for instance, the rise of a sort of market for concessions granted by the Committee. It appears that some people have asked for authorisations to start new plants, without any real intention of starting them, hoping instead that *entrepreneurs* already on the job would be willing to purchase those rights for the sake of avoiding competition. Signor

De Stefani, with good reason, asks for publicity in the preliminary stages. Third parties should have the right to intervene. How, it may be asked, can consumers be protected against monopoly? According to Signor De Stefani the decision should be made by a truly judicial body. It is difficult, however, to imagine how a Court, juridically minded, can reach decisions on such things as inventions, better organisation, ability of untried men, etc. How are we to discover a Ford among hundreds of young applicants? Senator Agnelli, at present the big man in the motor-car industry, was, when quite a young man, a lieutenant in the army. What chance would he have had of being selected by a Court among the many would-be motor makers in the adventurous days when the automobile was deemed a crazy invention? Perhaps these and other doubts may be dispelled by the publication of the full reports laid down before the Committee on each application, and of the full technical and economic reasons for the decisions of the Committee.

FALL IN THE GOLD RESERVE AND CREDIT POLICY. — The continued fall of the gold reserve of the Bank of Italy has given rise to some misgiving. Between December 31st and July 31st the figures have changed as follows:

(Million Lire)						
	Dec. 31, 1932	July 31, 1933	+ or —	Dec. 31, 1933	July 31, 1934	+ or —
Gold and gold devisen res ..	7,144	7,337	+ 193	7,397	6,399	— 998
Notes issued	13,672	13,329	— 343	13,243	13,330	+ 87
Advances and discounts	6,539	5,001	— 1,538	4,693	4,389	— 304
Official rate of discount (%)	5	4	— 1	3½	3	— ½

The dates selected are arbitrary, as all selections are; but being the same in the two years the arbitrary factor is perhaps reduced to a minimum. Certainly the decrease by 998 million lire of the gold reserve in the first seven months of 1934, as against an increase of 193 millions in the corresponding period of last year, is remarkable; and the general public will compare it with the inverse movement in the notes issued: 87 millions more in 1934, instead of a 343 millions decrease in 1933. Perhaps, however, the most important variation relates to advances and discounts, on which the attention of the public is not focussed. There is usually a big decrease in demand for advances and discounts between December 31st and July 31st. The decrease was 2,267 millions in 1930, 1,220 millions in 1931 and 1,538 millions in 1933. In the current year it was only 304 millions, a

figure comparable with the even smaller decrease of 28 millions in 1932. Presumably the notes brought to the Bank of Italy, to obtain exchange for foreign payments, were re-issued to meet internal trade demand. Presumably also the internal demand was favoured by the low official rate of discount. The hardening of foreign exchanges and the export of gold, instead of provoking a stringency in the internal credit market, left it untouched.

If the above analysis be correct, the Bank of Italy will possibly be driven in self-defence to put up the official rate of discount and to make a more drastic selection of commercial paper offered for discount. This is apparently the only way of making effective the strict control now exercised on the foreign exchanges.

Turin, August 17.

252.

ITALY

THE CORPORATIVE STATE. — Public opinion has lately been less focussed on foreign affairs than on the development of the new "Corporative" system. Signor Mussolini's words are eagerly waited. At Milan, on October 6th, after repeating the thesis that the present crisis marked the end of "Liberal capitalistic civilisation", the Duce rejected the alternative of State Socialism, on the ground, among others, that he did not want to multiply State employees by ten. The true solution, he said, was the Corporative one, which entrusted to producers the self-government of industry. This meant guaranteed work, a just wage and a decent home for the worker, as well as a more effective part in the regulation of the productive process. This speech will surely give food for reflection, but not for uneasiness, to the employing and capitalist classes.

The policy of deflation in order to maintain the present gold parity of the lira is being continued. To decrease the debt burden on property, the interest on land and real estate bonds issued by the "Credito Fon-

252. October 20, 1934, pp. 728-729. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain according to Graham Hutton.

diario" Institutes (Land and Real Estate Banks) have been made convertible from 6 per cent., 5 per cent. and 4.50 per cent. to 4 per cent. Bearers were able to ask for reimbursement in the ten days from September 20th to 29th. Bondholders asked for the reimbursement of only 63.2 million lire out of a total of 4,300 million lire. Tax exemptions have been attached to the new loans which the Credito Fondiario Institutes will grant to assist the conversion of onerous private debts into the new 4 per cent. type. The new bonds are exempt from income-tax. On the other hand, the exemption granted in 1926 to bonds issued by joint-stock companies has been suspended. While taxation at 20 per cent. on the interest on industrial bonds will render the issue of new bonds more difficult, it will assist the issue of the securities through public institutes, such as the I.R.I. and I.M.I., which will presumably continue to be tax exempt.

During the first two months of the current fiscal year (July-August, 1934) public expenditure was 2,420.6 million lire and public revenue was 2,563 millions. The deficit for the period was 315.7 million lire, against 717.7 millions in the corresponding period of 1933. Such a deficit is compatible with a cash surplus. The Italian Budget includes in "expenditure" not only sums paid, but sums which are legally due, but which may be actually paid in the distant future. In view of a decreasing Budget deficit and a surplus of cash, there is no need for the spectacular foreign loan which has been rumoured.

FLOATING DEBT AND GOLD RESERVE. — It is possible that in the more or less distant future free conversion of the Floating Debt into a Redeemable or Consolidated security may be arranged. The Floating Debt amounted on August 31st to 11,161.7 million lire, a somewhat unwieldy proportion of the total debt of 103,159 millions. The whole Floating Debt takes the form of an overdraft at the Cassa Depositi e Prestiti, the State bank, which administers the postal office saving deposits. The total Floating Debt is approximately equal to the net amount outstanding of Postal Savings Certificates (11,523.6 million lire on July 31, 1934). These certificates, which have a maximum currency of 15 years, have proved a splendid instrument for the encouragement of savings. The certificate can always be cashed on demand, but as the interest paid increases progressively from 3 to 4.50 per cent., if the certificate is kept until the end of the fifteenth year, they are frequently allowed to run their whole life.

The position of the Bank of Italy continues to give rise to some concern, owing to the fall of the gold reserve (in million lire).

	Dec. 31, 1932	Dec. 31, 1933	Sept. 30, 1934
Gold and gold devisen reserve	7,144	7,397	6,240
Notes issued	13,672	13,243	13,455
Advances and discounts	6,539	4,693	4,746
Official rate of discount	5	3½	3

It is hoped that the outflow of gold may cease, as the passive balance of trade is decreasing. According to the prevalent mercantilist theory, the decrease of the Bank's gold reserves is the effect of the foreign trade deficit. In recent speeches, however, Signor Asquini, Under-Secretary of State for Corporations, warned industrialists not to rely too much on prohibitions, protection and quotas, but on sustained efforts toward a reduction of costs.

Turin, October 14.

253.

ITALY

A DRIVE AGAINST UNEMPLOYMENT. — Signor Pirelli and Signor Cianetti, commissioners of the Confederations of Industrial Employers and Employees, respectively, have signed an agreement intended to reduce unemployment. The unemployment figures show that there has been a slight decrease since 1933:

	1933	1934
August	888,560	866,570
September	907,463	887,345

This improvement, however, is thought too slow; and it is hoped to accelerate it by increasing the number of men absorbed by public works above the present high-water mark average figure of 321,501 for September. The present big drive against unemployment includes the following features: 1) weekly hours of labour to be reduced to 40 in all cases where

253. November 17, 1934, pp. 922-923. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain according to Graham Hutton.

the reduction is technically possible; 2) a fund to subsidise men with big families, who are working only part-time, the fund to be maintained by a levy of 1 per cent. on the wages of fully-employed men. The levy is 5 per cent. on wages received for hours worked above 40. A corresponding payment of 1 and 5 per cent. is made by employers; 3) wage-rates are reduced in proportion to the reduction of hours worked; 4) overtime to be abolished; 5) women of all ages and men under 21 years must be, if possible, gradually discharged in all lines where adult men are more efficient; 6) the above rules about overtime and the employment of women and young men apply also to clerks and other non-manual workers.

The real meaning of the unemployment statistics is uncertain, as the figures include both assisted and non-assisted unemployed. In August, 1933 (the last month for which we possess the figures of assisted men), against a total, as above, of 888,560 unemployed, the assisted unemployed amount only to 143,334. The difference is partly due to the fact that the real unemployed, after 90 or 120 days of assistance, are no more qualified for assistance; but it is partly due to the usual mass, existing in all countries, of men not qualified for regular employment.

The latest indices of industrial production point to an improvement:

	Increase or Decrease per cent. in 1934 over the corresponding figure for 1933	
	August	January to August
Textiles	- 10.3	- 9.2
Iron and steel	+ 4.4	+ 4.8
Engineering	+ 6.2	+ 4.8
Paper	+ 17.9	+ 8.2
Building	+ 43.0	+ 40.7
Electricity, gas, etc.	+ 1.0	+ 6.0
General index	+ 5.2	+ 5.0

In the depressed textile group rayon is a cheerful exception, with an increase of 42.4 per cent. for August and 27.2 per cent. for the first eight months of the year. The big increase in the building industry is transient, as on December 31, 1935, the 25-years' tax exemption for new building expires, and everybody is trying feverishly to complete building operations before that date.

INCREASING IMPORT SURPLUS. — Public opinion is much concerned about the state of foreign trade. The statistics for the period January-September, 1934, are as follows:

	1933	1934	
	(000,000 Lire)		
Imports	5,551.2	5,649.1	+ 97.9
Exports	4,484.3	3,818.2	- 666.0
Import surplus	1,066.9	1,830.8	+ 763.9

The Protectionists are alarmed at the big excess of imports, and impute to it the decrease of the gold reserve of the Bank of Italy from 7,396.7 million lire on December 31, 1933, to 6,098.8 millions on October 31, 1934. Their alarm is unfounded, as the only serious cause of concern should be the difficulty of importing much-needed raw materials and half-finished products. That some imports have risen as follows in the first eight months of the year should be a matter of gratification:

	1933	1934
Coal, tons	6,020,870	7,583,438
Petrol, tons	79,891	83,580
Rubber, raw, tons	13,706	15,139
Cellulose, tons	145,165	166,784
Broken iron and steel, tons	390,545	477,458
Iron and steel, bars and ingots, tons	70,776	91,040

The reduction in other raw material imports, however, is disquieting:

Raw cotton, tons	145,730	133,166
Raw wool, tons	68,619	55,556

Industrial are complaining at the present restrictions on imports of wool, especially Australian, and the difficulties in obtaining foreign *divi-sen* payments. Clearings mean heavy delay in getting payments for goods sold. As the number of foreign tourists entering Italy from April to August, 1934, has been 1,619,937, against 1,370,083 in the corresponding period of the past year, the good results obtained by offering facilities to foreign travellers should be evidence of the much more favourable results which would follow the gradual opening of the frontier to foreign goods.

A very interesting study by Professor Repaci in the last September-October issue of *La Riforma Sociale* on the incidence of tariffs in Italy concludes that in the case of treaty-goods, i.e. goods taxed in virtue of commercial treaties with foreign countries, the present incidence is only 71.8 per cent. of the General 1921 Tariff. But, as the General 1921 Tariff was greatly increased as against prewar general and conventional tariffs, to compare 1933 with 1914, the increase in the general tariff (in old gold lire) is from 100 to 219.12, and in the effective average tariff, conventional

and general, from 100 to 222.43. There is, therefore, ample scope for the removal of obstructions to foreign trade.

Turin, November 13.

254.

ITALY

DEFLATION AND THE LIRA. — Subscriptions for the 2,000 million lire 9-year 4 per cent. Treasury loan at par were opened on November 21st. Subscriptions amounted to 3,935 million lire by 563,004 subscribers. Small subscriptions will be accepted in full, reductions being made progressively. The purpose of the loan has not been fully explained. As the Budget deficit for the first four months of the current financial year is 730 million lire, against 1,527 millions for the corresponding period in 1933, and will amount possibly to 2,000 million lire for the whole year, a loan was not needed. The Loan and Deposit Bank (Cassa Depositi e Prestiti) and other public institutions are well able to aid the Treasury, and, in fact, had lent them in the same period 660 million lire.

Signor De Stefani, in the *Corriere della Sera*, has repeatedly hinted that the best use of the proceeds of the loan would be the reduction of the note circulation of the Bank of Italy. The monetary situation is undoubtedly the core of the general economic situation:

	(000,000 lire)		
	Notes in Circulation	Total Gold Reserve	Discounts and Advances (including Advances to the I.R.I.)
December 31, 1933	13,243.3	7,396.7	5,831.3
October 31, 1934	13,255.4	6,098.8	6,083.3

In November the gold reserve fell to below the 6,000 million lire level, which to many observers looks very disconcerting. To counteract the fall of the reserve most people are asking for new restrictions on international trade. The Government most wisely has decided instead to issue the 2,000-million loan, and (on November 24th) raised the official rate of discount from 3 to 4 per cent. and the rate of interest on advances from 3½ to 4½. If the

254. December 15, 1934, pp. 1147-1148. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, unentitled but dated "December 11, 1934", is kept in the Einaudi archives.

proceeds of the loan are utilised to reimburse the Bank of Italy the sums advanced to the I.R.I. and other frozen advances – which are already a charge on the Treasury – the circulation will be restricted to about 11,000 million lire; and a deflationary pressure will be exerted on the price level more effective and better distributed than that exercised by a general indiscriminate drive for a 5 or 10 per cent. all-round reduction of prices. The rise of the rate of discount should also contribute to this end and should counteract the tendency to a flight of capital which has recently been visible.

Turin, December 6.

NEW EMERGENCY DECREES (*By Air Mail*) – A further fall of the total gold reserve was announced on December 7th.

Total Gold Reserve: Italy
(Million Lire)

December 31, 1933	7,396.7
March 31, 1934	6,918.2
June 30, 1934	6,502.9
October 31, 1934	6,098.8
December 7, 1934	5,866.8

On Saturday, December 8th, a decree was issued by the Cabinet Council for the enforcement of a full-dress control of foreign exchange transactions.

A distinction is drawn between two kinds of foreign assets on the one hand; a) *Credits*, i.e. money in current or deposit account or otherwise held, and sums due for goods sold, etc., and b) *Securities*, foreign or Italian, if issued in foreign countries, whether held in Italy or otherwise; and, on the other hand, between two kinds of holders: 1) firms, banks, bankers, companies and bodies, and 2) private citizens.

As to the a) credits possessed by class 1), they must be offered to the “National Institute for Foreign Exchanges”. If requested, the possessor must sell at the current rate all immediately realisable credits, and, at a price to be settled, the non-liquid credits. Forms must be sent to the Bank of Italy containing all necessary data within 10 days from December 8th; and all credits arising thereafter must be reported to the same bank, within 10 days of their origin. The same firms, companies or bodies must also send, within 10 days, a report to the Bank of Italy on their obligations in the shape of payments due to foreign creditors.

Class 2) holders of credits abroad are only obliged to send to the Bank of Italy by December 31, 1934, and thereafter within 15 days from their

origin, a report on all their Class *a*) credit claims on parties resident in foreign countries.

Both firms and private citizens (Classes 1 and 2) are obliged to send by December 31st, 1934, and afterwards within 15 days of any alterations, a report on their Class *b*) security holdings and subsequent variations.

Insurance and transport companies or agencies are authorised to keep foreign exchange accounts; but at the end of each quarter must send to the Bank of Italy a report on their transactions and on the state of their funds of foreign exchange.

Very detailed regulations about exports are issued, the gist of which is that no export is permissible without a previous report to the Bank of Italy and the latter's authorisation. All credits arising from exports must be sold to the National Institute for Foreign Exchanges. In each province a Committee will revise prices reported for goods sold.

Offenders are liable to heavy penalties up to one year's imprisonment or a sum equal to the non-reported amounts, and possibly confinement (*confino*) in the islands. The Bank of Italy's directors and employees must keep secret all foreign exchange transactions. The purpose of the decrees is to give the Treasury and the Bank of Italy actual disposal of all credits abroad, whether they arise from present foreign assets or from future exports. Later on, if need be, arrangements may be made for the sale of the securities, which must meanwhile be reported.

REACTIONS TO THE DECREES. — Newspaper comments on the new State monopoly of foreign exchange can be summarised thus: The lira is unchanged, unchangeable and independent. Perhaps a more matter-of-fact explanation of the events which culminated in the recent decree may be found in an illuminating monthly review of the Treasury and Budget accounts by Signor Mazzucchelli in *Rivista Bancaria* for May of this year. Total gold reserves of the Bank of Italy, including gold exchange, increased during 1926 and 1927, reaching the maximum of 12,518.8 million lire on April 30, 1928, mainly owing to loans issued in foreign countries (mostly U.S.A.) by the State and other public and private bodies and concerns. Signor Mazzucchelli calculates the amount of these gold-producing loans at 8,000 million lire, the greater part of the gold proceeds going to the Bank of Italy. As happened before in the 'eighties after the 640 million gold lire loan for Italy's adherence to gold, an opposite movement began in April, 1928. Partly in consequence of the interest and amortisation payments abroad, but mostly of the repurchase by Italians of Italian securities

issued in foreign countries, gold was bound to return abroad; and Italy was left with a gold reserve roughly corresponding to the reserve held before the ill-fated 1926-27 loans. But though these decreases in gold holdings were, in a way, a favourable index of the capacity of Italian new savings to repatriate Italian securities, further decreases below the 7,000 million lire were deemed disquieting. The decrease of about 1,500 million lire in the first 11 months of 1934 cannot be said to originate in the current income deficit of the international balance of payments.

Signor Mussolini, in his speech of May 26, 1934, in the Chamber of Deputies, estimated the proportion due to capital flight at one-third of the whole decrease. The State monopoly of foreign exchange ought, in the first place, to compel exporters to reimport all their balances held abroad. Then, if need be, the State may also requisition foreign and Italian foreign-issued securities. It should be observed that Italian foreign-issued securities which have already been repatriated cannot exercise any pressure on the foreign exchanges. Last June, all foreign and foreign-issued securities were stamped, thus enabling the Treasury to estimate their exact amount. No estimate has yet been published. As to bank and other balances held by Italians in foreign countries, a figure of 8,000 million lire was widely accepted in 1923, among others by Professor Pantaleoni. Now the amount would be vastly reduced. The crisis has reduced these credits and has obliged many holders to cash what was left. The recent increase in the rate of discount of the Bank of Italy should have worked, if not to invite foreign capital, at least to induce exporters to draw on their foreign balances.

Turin, December 12.

255.

ITALY

CHANGING THE GUARD. — The changes in the Ministry, which took place on January 24th, have no clear-cut political or economic significance.

255. February 2, 1935, pp. 247-248. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Changes in the Ministry. Foreign exchanges restrictions and gold reserves. Foreign trade clearings. Foreign trade and internal production. Recovery

Signor Jung's departure from the Finance Ministry must not be taken as connected with the position of the lira, as the Ministers of Agriculture, Public Works, Railways and Corporations have also moved round. If any significance can be found in the changes, it should be sought in the appointments of Signor Rossoni and Signor Razza, both drawn from the Old Guard of syndicalist organisers on the Labour side. Employers, however, will be gratified at the appointment of Signor Thaon di Revel, a nobleman and landowner, and Signor Benni, head of the great firm of Marelli.

The new foreign exchange restrictions have not yet had any decisive influence on the balance sheet of the Bank of Italy. From December 10, 1934, to January 10, 1935, the gold reserve increased from 5,769.5 to 5,818.2 million lire, and the gold exchange reserve from 27.1 to 81 million lire. The total increase thus amounts to only 102.7 million lire. In addition, the Foreign Exchanges Institute probably has a secret balance sheet, like the British and American Equalisation Funds, of which it is a counterpart. Finally, not all the foreign exchange in the possession of individuals, firms and banks may have been called for; and holders have certainly not been invited to sell to the Institute or to the Bank of Italy their foreign securities. It appears, therefore, that important further reserves exist. From December 10th to January 10th the note circulation decreased by 97.2 million lire. Gold and gold exchange purchases were thus financed from other resources.

The credits and liabilities of Italian exporters and importers passing through the various clearing organisations existing at present (end of third week of January) are as follows:

	Million Lire		Italian Importers' Liabilities
	Italian Exporters' Credits Declared as in being	Unavailable owing to lack of Lire abroad	
Germany	144.9	71.4	430.7
Jugoslavia	21.2	17.9	32.6
Hungary	97.9	—	5.2
Turkey	54.7	24.3	4.4
Rumania	167.8	—	13.6
Bulgaria	34.0	—	1.8

and restrictions. Corporation meetings and new 40 hours legislation", dated "Turin, January 27/1934 [rectius 1935]", is kept in the Einaudi archives.

FOREIGN TRADE AND HOME PRODUCTION. — Italian foreign trade for the first eleven months of 1934 was as follows:

	(Million Lire)	
	1933	1934
Imports	6,718.8	6,879.3
Exports	5,475.8	4,694.1
Import surplus	1,243.3	2,185.2

The general index of industrial production (1928=100), after dropping to 62.72 in June, 1932, rose to 85.71 in June, 1934, 91.66 in July, 87.03 in August, 93.50 in September, 95.07 in October and 94.68 in November. The group with the maximum increase is the building industry, where the index in November, 1934, touched 139.24. The cause is the feverish effort which is now being made all over Italy by builders to get new houses finished before December 31, 1935, when the 25-years' tax exemption will end. Next to the building industry, come the electricity and power industry, with an index of 126.40 for November, and the paper industry with 125.98. Iron and steel and engineering remain at a low ebb (80.79), as well as the textile industry (85.30). The worst obstacle to economic recovery in Italy is the remaining swarm of quotas and other foreign trade restrictions.

Unemployment is decreasing, as the following figures show:

	1932	1933	1934
July	931,291	824,195	886,998
August	945,972	888,560	866,570
September	949,408	907,463	887,345
October	956,357	962,868	905,114
November	1,038,757	1,066,215	969,944
December	1,129,634	1,132,257	961,705

In what proportion the decrease can be credited to general industrial recovery and to the compulsory introduction of the 40-hours week is difficult to say. The decrease had begun in October before the introduction of the 40-hours week. Probably about half the reduction in unemployment is due to one cause and half due to the other.

Turin, January 27.

256.

ITALY

The year 1934 was marked by a keen effort to reduce the Budget deficit. In the three past financial years ending June 30, 1934, the average deficit reached 3,500-3,800 million lire, exclusive of an extraordinary sum of about 3,000 million lire spent in 1933-34 to pay anticipated interests and bonus to holders of 5 per cent. consols converted into 3.50 per cent. redeemable consols. The February conversion saved the Treasury about 800 millions net which, together with the 8 per cent. to 12 per cent. reduction in public servants' salaries and minor economies, kept the deficit in the first six months of the 1934-35 Budget year within 1,074.7 million lire, against 2,307.6 millions in the corresponding period of the previous year. The deficit for 1935-36 is estimated at 1,657 millions. As a result of the successive deficits the public debt increased from 91,442 millions on June 30, 1931, to 102,622 millions on June 30, 1934, and 105,164 millions on December 31, 1934. The last report of the Chamber Budget Committee emphasises the importance of payments due in future years for public works, land reclamation, afforestation, etc., which it estimates at 20,422 million lire.

WAGES AND UNEMPLOYMENT. — Since the reduction in wages in 1931 there has taken place, contrary to current impressions abroad, no general drive for new reductions in hourly wages. The 8 per cent. to 12 per cent. reduction in April, 1934, was limited to public employees' salaries. Reductions were sporadic. The index number of agricultural hourly wages (1930=100), was 83.2 at the end of 1931, 78.5 at the end of 1932, 76.5 at the end of 1933, and 75.2 in November, 1934. The corresponding indexes of industrial wages was 89 in 1931, 86 in 1932, 85 in 1933, and 81.50 in 1934. The average yearly general cost-of-living index (1930=100) was 90.3 in 1931, 86 in 1932, 82.3 in 1933, and 78.1 in 1934. It thus appears that the industrial workers' standard of living is somewhat better now than in 1930; while agricultural labourers — who, however, are mostly paid in kind — have suffered in comparison. Of course,

256. February 16, 1935, p. 14. The article, unsigned, was published in the supplement *The Economist. Commercial history & Review of 1934*. Its attribution to Luigi Einaudi is certain because the original manuscript, uncompleted and without date and title, is kept in the Einaudi archives.

this is not the whole tale; because earnings per family are more important to workers than wages per hour. Statistics published by the General Confederation of Industry seem to prove that the number of hands employed is increasing. The index of employment (1929=100) rose from a minimum of 75.84 in January, 1934, to a maximum of 87.62 in September, against 72.40 and 83.39 in the same months of 1933. The index of hours worked also rose from 69.14 to 85.66 in 1934, against a rise from 65.80 to 83.29 in 1933.

Unemployment is decreasing. In agriculture there were 336,384 unemployed at the end of 1933 and 211,320 at the end of 1934; in industry 692,172 at the end of 1933, and 638,050 at the end of 1934; and in commerce and private transport 103,701 in 1933 and 112,335 in 1934. The total fell from 1,132,257 at the end of 1933 to 961,705 at the end of 1934. This reduction must be partly due to the drive in December, 1934, for "work-sharing" in industry, by which weekly hours of work were reduced from 48 to 40.

AGRICULTURE. — Crops were mediocre in 1934. The yield of spring maize increased from 2.4 million tons in 1933 to 2.9 in 1934; of summer maize from 0.2 to 0.3 million tons; of rice (raw) from 0.61 to 0.62; of sugar beet from 2.1 to 2.7; and of potatoes from 2.4 to 2.7. The yield of hemp was unchanged at 0.05. But the two most important crops in Italy, wheat and grapes, decreased: wheat from 8.1 million tons in 1933 to 6.3 in 1934, and grapes from 5.4 to 5 million tons. Prices were kept at a good level in the interests of farmers, mainly by high duties or by absolute prohibition of imports and by quotas. The price of wheat did not fall below 800 lire per ton; and the price of rice has been kept by the Rice Board above 500 lire per ton by means of export premiums.

INDUSTRIAL PRODUCTION. — A new index, calculated by the Corporation Department (1928=100), gives industrial production in 1932 at 73 (minimum) and in 1933 at 80.5. The following are the monthly figures of this new index:

	1933	1934
January	70.94	72.20
February	74.48	77.31
March	80.89	84.45
April	82.69	86.92
May	86.54	89.47
June	79.14	85.71
July	84.87	91.66
August	82.86	87.03
September	85.41	93.50

October	83.05	95.07
November	79.56	94.68
December	75.10	—
Average for the first 11 months	80.90	87.09

Industrial recovery has been progressive. Apart from minor industries, the maximum expansion is to be noticed in the building industry (+67 per cent.), in which *entrepreneurs* are anxious to finish building before December 31, 1935, when the 25-years' tax exemption will end. Rayon (+29.4 per cent.) and electricity (+8 per cent.) also have good records.

TRANSPORT AND TRADE. — To these improvements in the industry inland trade is apparently slow to respond. Goods carried by the railways remained in 1934 behind 1933 for the first nine months of the year. In the last quarter a slight improvement was visible. Actually, 24.7 million tons were carried in the first nine months of 1934, against 25.2 in the same period of 1933; and 8.7, against 8.5 in the last quarters. This unresponsiveness is perhaps due to transference of goods traffic from railways to the roads. The volume of sea-borne traffic in 1934, however, surpassed the 1929 level, the 1934 figure being 37.9 million tons for international and coastal trade, against 32.2 in 1933 and 36.8 in 1929.

INTERNATIONAL TRADE. — International trade appears to have touched bottom.

	(Million lire)			Decrease in the Bank reserves of the Bank of Italy
	Imports	Exports	Import Surplus	
1928	22,213	14,999	7,314	1,035
1929	21,665	15,236	6,429	730
1930	17,347	12,110	5,228	717
1931	11,643	10,210	1,433	1,827
1932	8,268	6,812	1,456	838
1933	7,432	5,991	1,441	367
1934	7,665	5,232	2,433	1,540

The best symptom is the increase of imports, in so far as it is a token of industrial expansion. The last column shows that there is no necessary connection between the so-called passive balance of international trade and losses of gold reserves. The biggest loss in 1931 was due to the credit and sterling crisis, which drew foreign gold deposits away from Italy.

MONEY MARKET. — The official rate of discount, reduced in 1933, was kept unchanged at 3 per cent. from December 11, 1933, till November 26, 1934, when it was raised to 4 per cent. The private commercial rate of dis-

count remained stable at 3 per cent. to $3\frac{1}{2}$ per cent. for the first ten months of the year; and rose gradually to $3\frac{3}{4}$ per cent. in November and $4\frac{1}{2}$ per cent. in December. The rate on financial paper and the securities end-of-month settlement rates were more erratic. It was possible to raise money on State securities at as low a rate as 3 per cent.; and even on industrial equities the rate did not rise above $5\frac{1}{2}$ per cent. The rise was not due to any slackening in the volume of new savings, as the yearly increase in banks and saving-banks deposits, which was 2,900 million lire in 1930 and 4,300 millions in 1933, was still about 3 billions in 1934, although the Treasury bond issues of 4,000 millions in January and 2,000 millions in November absorbed a considerable slice of the new savings.

The official rate of discount appears to have been raised mainly in defence of the gold and gold exchange reserves of the Bank of Italy, which decreased by 1,540 millions to 5,796.5 millions between January 1 and December 10, 1934. As a result of this a decree of December 8th put the foreign exchanges market under strict regulations. On December 31, 1934, the reserve had risen to 5,883.2 millions.

If not buoyant, the Stock Exchanges have been fairly active. The index number of 34 leading shares (December, 1925=100) rose from 48.12 in 1932 and 58.65 in 1933, to 65.14 at the end of 1934. New public issues of shares, which in the previous three years averaged 731 million lire, amounted in the first ten months of 1934 to 1,177.2 million lire. The increase is mainly attributable, however, to financial reconstructions.

257.

ITALY

THE GOLD RESERVE AND IMPORT RESTRICTIONS. — The immediate antecedents of the decree of February 18th, which drastically restricted imports, may be found in the publication of the latest statistics on foreign trade and of the Bank of Italy's position:

257. March 2, 1935, pp. 474-475. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Foreign trade and Bank of Italy. Restrictions of foreign trade and the import licenses system. Balance of trade by countries", dated "February 23, 1935", is kept in the Einaudi archives.

(In million lire)

	Imports	Exports	Import Surplus
1933	7,431.8	5,990.6	1,441.2
1934	7,664.7	5,231.5	2,433.2
January, 1934	643.0	405.1	237.9
January, 1935	620.8	379.7	241.1

There is no direct correlation between the import surplus and the decrease in gold reserves. During 1933 the total gold and gold exchange reserve increased by 252.7 million lire, while from January 1st to December 10, 1934, it decreased by 1,600.2 millions. Then there came into operation the decree of December 8th, which provided for the compulsory sale to the Bank of Italy of all foreign balances held by Italian citizens, firms and banks. The effect on the reserve was as follows:

	Gold	Gold Exchange	Total	Increase (+) or Decrease (-)
December 10	5,769.5	27.1	5,796.5	
" 20	5,800.2	42.6	5,842.8	+ 46.3
" 31	5,811.5	71.7	5,883.2	+ 40.4
January 10	5,818.2	93.2	5,911.4	+ 28.2
" 20	5,820.5	98.9	5,919.4	+ 8
" 31	5,822.3	81.9	5,904.2	- 15.2
February 10	5,822.5	49.0	5,871.5	- 32.7

After a series of increases the total reserve began again to decrease at the end of January. The biggest reserves that remain – foreign securities in the possession of Italian citizens – are still to be tapped, but the Treasury clearly deems it inexpedient to exhaust them at once.

The reappearance of the downward movement in the gold reserve has created the impression that the Government's foreign exchanges monopoly is not enough and that imports must also be officially regulated. The new decree, therefore, enacts that after March 31st imports will only be permitted if a licence is obtained from the Finance Department in Rome. Until March 31st a provisional regime has been instituted by which goods are classified in several categories. In category 1) imports are absolutely prohibited. About 200 items fall into this category, including dyed cotton, warps, lints, cotton velvet, braidings, ribbons, various silk goods, locomotives, tenders, railway cars, aeroplanes, hydroplanes and their parts, ships, etc. Imports in category 2) may be admitted by the Customs offices in proportions varying from 10 per cent. to 35 per cent. of the quantities imported by each firm in the period from February 16th to March 31, 1934.

ITALY'S BALANCE OF TRADE BY COUNTRIES. — The immediate aim of the restrictions is to reduce the import surplus forcibly and stop the drain on the gold reserve. The ultimate effect will be to give the Treasury a flexible bargaining weapon. It is believed that countries exporting to Italy mainly raw materials and unmanufactured goods will be in a strong bargaining position. The idea of "balanced trade" with each single country is here regarded as unrealisable; but it is hoped that the larger import surpluses may be evened out. The situation varies much from country to country:

(Millions of Lire)			Import Surplus (+)
	Imports from	Exports to	Export Surplus (-)
Austria:			
1932	185.8	190.2	- 4.4
1933	176.6	131.9	+ 44.7
1934 *	152.7	102.2	+ 50.5
France:			
1932	481.9	517.2	- 35.3
1933	409.7	458.1	- 48.4
1934 *	340.0	278.2	+ 61.8
Germany:			
1932	1,110.4	777.8	+ 332.6
1933	1,086.9	727.8	+ 359.1
1934 *	970.5	670.9	+ 299.6
Great Britain:			
1932	743.3	736.1	+ 7.2
1933	724.9	681.5	+ 43.4
1934 *	559.7	436.3	+ 123.4
Switzerland:			
1932	310.0	578.3	- 268.3
1933	270.4	482.7	- 212.3
1934 *	214.4	370.5	- 156.1
Argentina:			
1932	482.5	381.1	+ 101.4
1933	248.5	383.2	- 134.7
1934 *	239.9	177.3	+ 62.6
United States:			
1932	1,108.2	638.0	+ 470.2
1933	1,113.2	517.7	+ 595.5
1934 *	795.8	312.6	+ 483.2

* First ten months.

There is sufficient evidence of triangular trade, even in the above limited number of countries. But it is argued that the compensating invisible items of emigrants' remittances, maritime freights and tourists' expenditure

are dwindling or diminishing; and that the trade balance proper is in several cases, including Austria, France, Great Britain and Argentina, becoming more passive.

Turin, February 23.

258.

ITALY

IMPORT REGULATIONS AND BARTER. — Parliament is out of fashion in Italy; but political discussion is taking place, nevertheless, in committees and corporations. An instance of the effect of these discussion is the gradual relaxation of import regulations. The newspapers have just published a circular letter from the President of the Institute for Foreign Trade, of which the gist is that importers can import goods in excess of the basic quantities if they can connect the imports in question with some export transactions. It is provided that: 1) Imports and exports may be connected in triangular fashion between different countries; and 2) that the importer may get into touch with exporters so as to offset the different operations. The creation of intermediary or special (corporative) bodies to this end is encouraged. Once upon a time money used to be such an intermediary. But until it becomes so once again we must rejoice that efforts are being made in earnest to rebuild foreign trade even on the barter system. The outflow of gold from the Bank of Italy has again been checked; and in the last ten days of February there was a slight inflow.

As from March 5th, Banca Commerciale Italiana, Credito Italiano, Banco di Roma and Credito Marittimo shares will be no longer listed on the Italian stock exchanges. Prices already had become largely nominal. At the Milan Bourse, only 2,375 "Comit's" shares, 9,473 "Credit" and 550 "Bancoroma" were sold in 1934, and the shares of the Credito Marittimo were not even mentioned. The disappearance of these shares

258. March 30, 1935, pp. 720-721. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. The banking problem. Division of labour in banking. Foreign trade on a barter basis" and dated "Turin, March 17, 1935", is kept in the Einaudi archives.

from the list is the final outcome of the process by which all frozen assets of the banks have been transferred to the I.R.I. (Institute for Industrial Reconstruction). This has restored the banks to complete liquidity. As in past years, the banks had endeavoured to insure themselves against raids by big industrial customers, and so had largely pooled their shares in special financial companies, financed and controlled by the same banks. It happened that among other frozen assets the majority of the banks' shares were also transferred to the I.R.I. The big-four banks became thus the property of the I.R.I., and as the I.R.I. is a public body, practically financed by State institutes (Loans and Deposits Institute, Social Insurance Institutes), the four banks are now *de facto* public or State institutes. There is a minority of private shareholders, though a diminishing minority, who could until March 5th sell their interests at a quasi fixed price.

I.R.I. TO RESELL ITS INDUSTRIAL SHARES? – Clearly, the I.R.I. became tired of buying all the shares which came on the market, and listing was accordingly terminated. The question now being asked, however, is: what is the use of the State keeping four separate organisations all its own property? Following on the heels of the announcement of the exclusion of these shares from the list, there came another announcement, not less displeasing to the few remaining private shareholders, namely, that no dividend would be distributed by the four banks for 1934, and that all profits would be put to reserve. This was taken as a presage of reorganisation and fusion, and pessimists wondered if such large and highly developed organisations could ever again be able to earn receipts proportionate to their capital. Time will show. The best course appears to be to let the banks live. Apart from their mistakes in the inflation period, they have excellent traditions; they are now liquid; and they can utilise some of the best organising brains in Italy. But traditions and brains can thrive only in competition.

Rumours are current in financial circles that the policy pursued by the I.R.I. is the gradual sale of all its miscellaneous portfolio of industrial shares to powerful private interests. The sale of Italian Gas Company to the Frascati group has been followed by other sales of electric shares to the powerful Edison and Pirelli interests. In a year this process of transfer from public to private ownership will perhaps be complete. The big four banks may then again become private concerns.

Another problem now being discussed in the banking world is this: will

banks be allowed to continue to be of the mixed type usual in Italy, or should a strict division of labour be enforced? In the outside banking circles the opinion seems to be growing that every bank ought to be restricted to a given region, to a given industrial section, and mainly to a given set of current short-term commercial operation or long-term financing. The bulk of expert banking opinion, however, is distrustful of such hard and fast maxims. To bankers the question is exclusively a matter of practical prudence. Some banks have had to be salvaged as a result of unwise long-term investments; but nobody thinks that a bank can prosper without a convenient and prudent mixture of short-term, medium-term and long-term operations.

Turin, March 25.

259.

ITALY

FOREIGN INVESTMENTS AND THE GOLD RESERVE. — A few points may be usefully picked out of the Bank of Italy's report, which is, as usual, the most important financial document of the year. The report explodes the notion widely held in industrial and commercial circles that the reduction of gold reserves between December 31, 1927, and December 10, 1934, was due to an import surplus. The data collected by the Bank of Italy are such as to authorise the conclusion that the halving of the gold reserves from 12,500 million to less than 6,000 million lire "was mainly due to capital investments by Italians in foreign countries, and to purchases, also by Italians, of foreign securities and of Italian securities issued in foreign countries". "It may be added", says the Report, "that, were it not for the said important foreign investments, the balance of payments would have been active for several years, with a consequent increase of gold reserves".

259. April 20, 1935, p. 903. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, without date but entitled "Italy. The Bank of Italy annual report. Foreign investments and not commercial deficit responsible for gold reserves decrease. The cheap money policy. 1934 a turning point. Savings and their distribution", is kept in the Einaudi archives.

The stream of Italian capital seeking investment abroad is said by the report to be due to the excess of the rate of interest prevailing abroad over the internal rate, and also to the cheapness of sterling and dollar securities purchasable at the current rate of exchange. In some measure, therefore, the outflow of capital is due to the current cheap money policy. The recent reduction of the rate of discount from 4 per cent. to 3.50 per cent. is accordingly criticised in some quarters. Industrial securities, which have been gently rising for several years, have shot up in the last few weeks. And despite measures taken by the Treasury to check a speculative movement, the rise is continuing.

In 1934 the import surplus, which was previously offset by invisible exports, became, according to the Bank's report, a decisive factor in the balance of payments owing to reductions in invisible exports. A further proof of the fundamental truth that from 1928 to 1933 the commercial trade deficit was really not such a big thing as many supposed, and that the international payments account was on the whole evenly balanced, is afforded by the further statement made in the report that the Consortium for Industrial Loans (a body created by the Bank of Italy to make direct advances to industry) was able to reduce a rediscount previously obtained from the Bank for International Settlements from 280 million lire on December 31, 1933, to next to nothing during 1934. It was only at the end of December, 1934, that the Consortium was formed to raise its rediscount to 311 millions. Now at long last, however, the import surplus, owing to the drying up of invisible exports, has become of decisive importance. Importers must now rely almost exclusively on the Bank of Italy's resources. From December 10, 1934, to February 28, 1935, the Bank sold to importers 2,000 million lire of foreign exchanges, partly drawn from the monopolised yield of exports and partly "on an important scale" from credits held by banks and commercial firms in foreign countries and sold to the Bank in virtue of the December 8, 1934, decree for the "mobilisation" of foreign investments.

THE NATIONAL SAVINGS. — The accumulation of savings is not slowing down. Senator Scialoja has printed in the report of the Senate Finance Commission on the 1932-33 accounts a very interesting table showing increases of savings between December 31, 1930, and September 30, 1934. In these four years and nine months saving deposits increased by 10,409 million lire; issues of new securities totalled 26,197 millions; life and social insurance premiums paid to insurance companies

and bodies amounted to 3,863 millions. The total is formidable. To these savings, which probably cannot be less than 6,000 million lire annually, one must add direct investments in new houses and new industrial equipment, and sums put to reserve by joint stock companies. A rough guess would point to a total of savings of no less than 10,000 million lire annually, which looks truly remarkable against a national income which Senator Scialoja in the same report estimates at 63,000 million lire. Clearly, the Italian national income must be higher than that figure; for Italians would not be able to pay more than 20,000 millions net in annual taxation and also save 10,000 millions. A country of small men – 9,600,000 land-taxpaying units among others – such as Italy, has vast invisible resources, of which statisticians cannot easily take cognisance. These millions of small men save in all times, good and bad.

New issues were distributed between December, 1930, and September, 1934, as follows (in millions of lire):

Public borrowing:		
State issues	8,823.3	
Municipalities and provinces	358.5	
Public works consortium	3,752.2	
		12,934
Private borrowing:		
Land and real estate credit institutes	4,582.5	
Agricultural improvement credit	311.2	
Industrial debentures issued:		
By companies	1,100.5	
Through public bodies	1,711.9	
Shares issued	5,133.0	
		12,839.1

Savers clearly prefer State or State-guaranteed issues. Some of the biggest loans, even in the second table, are issued by public bodies.

Turin, April 15.

260.

ITALY

STOCK EXCHANGE AND INDUSTRIAL RECOVERY. – May has been characterised by a continuation of the rise in variable dividend securities on the Stock Exchange. The index number of the Milan Council (1925=100) has risen from 48.12 at the end of 1932 to 58.65 at the end of 1933, 65.14 at the end of 1934, and 70.43 on March 30, 1935. On May 11th the index touched 75.38. Then a Treasury order extended the compulsory deposit of 25 per cent. cash, which was already compulsory for all purchases and sales of industrial securities for monthly settlement, to all carry-overs (*riporti*) on shares. The order caused a sharp recession on the market, and on May 18th the index was down at 72.26. The Treasury subsequently agreed that deposits in Government stock, instead of in cash, should be authorised, and that the deposit should be required only for speculative transactions.

As the Finance Minister observed in his Budget speech, the rise in ordinary shares is the logical sequel of the improvement in the industrial situation. The general index of production (1928=100) was 97.1 in February, against an average index of 88.3 in 1934, 80.5 in 1933, and 73.0 in 1932. When share prices are rising, fixed interest securities are usually somewhat neglected. Nevertheless the issue of 1,000 million lire one-year 4 per cent. Treasury bills, announced yesterday, has been a success. The issue can be described as a new departure, as no ordinary (*viz.*, for one year or less) Treasury bills have been issued since the autumn of 1926, when the huge amount of those bills then outstanding was compulsorily converted into 5 (now 3½) per cent. Consols.

THE PUBLIC DEBT. – In the course of his speech the Finance Minister referred appreciatively to an editorial note on the Italian public debt in the *Economist* of February 23rd. According to the Minister, the increase in the public debt between June 30, 1922, and June 30, 1934, is not 50,000 mil-

260. June 1, 1935, pp. 1246-1247. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Boom in the Stock Exchanges and a curb on it. Issue of Treasury bills. Italian public debt. Foreign securities and foreign exchanges regulations", dated "Turin, May 25", is kept in the Einaudi archives.

lion lire, but only 31,000 millions. The difference seems to apply not to the main public debt (consols, redeemable and floating debt), estimated both by the *Economist* and the Finance Minister at 104,200 millions, including the Morgan Loan, but to the other items in the total. There is one item in your calculation, that of 1,773 millions due to the Bank of Italy, which probably ought not to be included at all in the Public Debt total, since nobody includes in that total the theoretical sums due in consequence of war debts settlements to Great Britain and the United States. This 1,773 millions will disappear when an all-round international settlement of war debts can be achieved. The deferred payments' present value, which the *Economist* estimates at from 30,000 to 32,000 million lire, is calculated by the Minister at 24,000 millions. This last estimate is understood to be the nearest possible approximation to an exact figure in this difficult field.

The Finance Minister specially explained the point that against the big increase of 31,000 million lire in the public debt, there is also an increase in the State's assets: 17,293 millions of public works executed wholly by the State; 5,815 millions of grants in aid to public works executed by other public or private bodies; 6,018 millions of investments in the State Railways; or a total of 29,126 millions. And to this should be added from 5,000 millions to 6,000 millions which were invested, as a condition of the grant of the above 5,815 millions, by the private and public bodies concerned. In short, Mr J. M. Keynes and Mr Lloyd George, the apostles of gigantic expenditure on public works as a means to recovery, should take Italy as their object lesson. The most interesting conclusion of this discussion is that Treasury statisticians are to elaborate a complete statement of the capital liabilities and assets of the State, with estimates of the repercussions of public expenditure on the national wealth.

A sequel to the decrees enjoining the compulsory declaration of foreign securities held by banks, companies, institutions and private citizens, was published on May 20th. Foreign securities, it was then decreed, had to be deposited within twenty days at the Bank of Italy, banks which are agents of the Bank of Italy, or any other bank to the account of the Bank of Italy. Holders can freely sell or transfer these securities, but must transfer to the Bank of Italy the proceeds of sale, against payment in lire. The Foreign Exchange Institute has thus been more and more charged with the duty of an Equalisation Fund and also with those of a quasi Public Trustee and Bureau for the sale of foreign securities.

Another big step in the centralisation of foreign trade and foreign exchange business has been taken with the creation of the office of Superin-

tendent of Foreign Exchange (*Sovrintendente allo scambio delle valute*), to be directly responsible to the Prime Minister. The multiplication of quotas, clearings, compensated exchanges, restrictions on the sale of exchange, etc., has caused the creation of many offices, sometimes mutually interlocking, and all retarding business.

Turin, May 25.

261.

ITALY

RATES OF INTEREST RISING. – During past months there has been a continuous and steady fall in the prices of fixed interest securities and a rise in prices of variable dividend securities. According to the Milan Economic Council, the index of 14 leading debentures (December, 1925=100), after touching the high point of 113.79 on August 31, 1934, had fallen to 104.79 by May 25, 1935. Prices are, however, largely nominal; and the total value of debentures daily transacted oscillates between 0.21 and 0.05 per thousand lire of total issues. The decrease is partly due to conversions, which have reduced the net yield of securities during the past year. The 3.50 per cent. State Redeemable stock, which enjoys a very large market, after being quoted at 97.17 in the first ten days of February, 1934, when it was still on a 5 per cent. basis, had fallen to 85.02 by December, 1934, and to 70 by the end of the present week.

It appears that the current rate of interest for high-class securities is again as high as 5 per cent., with a few exceptions for land and real estate (*Credito fondiario*) debentures, which are on a 4.50 per cent. basis. The rise in the rate of interest is general. Private discount rates on fine commercial bills, which in May, 1934, were 3 per cent. to 3.50 per cent., were 3.50 per cent. to 4 per cent. in May this year. For financial bills the rise is from 3.75-5.50 per cent. to 4.25-5.25 per cent. Carry-over rates in the Stock Exchanges rose similarly for the best industrial securities from 3.75-4.25 to 4-4.50 per cent.

261. July 13, 1935, p. 70. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Fixed interest securities and the rise in the rate of interest. Deposits stationery. Industrial activity and direct investments. Shares more attractive. Unemployment dwindling. Foreign trade regulations. Wheat and cocoons' price maintaining bodies", dated "Turin, July 6, 1935", is kept in the Einaudi archives.

Variable dividend shares (December, 1925=100) advanced from 48.12 in December, 1932, to 65.14 in December, 1934, and to 75.01 on May 25, 1935. The biggest relative increases (between December 31, 1932, and March 25, 1935) took place in the textiles (12.15 to 24.21), iron and steel and engineering (35.41 to 73.06), electricity (47.70 to 84.03), food and miscellaneous (64.76 to 101.67) markets. The money absorbed by the shares market is not, however, very great.

Bank deposits are not increasing. Between December, 1934, and April, 1935, postal saving bank's deposits decreased from 20,431.9 million lire to 20,257.6 million lire; and between December and March deposits in the ordinary saving banks decreased from 19,572.8 millions to 19,394.2 millions. In the public banks, ordinary banks and popular and regional banks there was a slight increase between December and April; saving deposits increased from 9,415.8 millions to 9,447.6 millions, and current account deposits from 2,349.2 millions to 2,388.4 millions. The correspondents' credits item at the ordinary banks, which in Italy includes most current accounts, fell between December and April from 13,641.8 to 13,450.9 millions.

PRODUCTION INCREASING. — Production is increasing, as the new indices of the Department of Corporations demonstrate:

(INDUSTRIAL PRODUCTION, 1928=100)

	December, 1929	December, 1932	December, 1934	April, 1935
Textiles	101.7	67.4	73.6	89.7
Iron and steel	111.2	72.6	91.7	112.5
Engineering	104.0	70.5	75.5	90.2
Paper	106.8	103.0	120.5	129.6
Building	139.6	78.9	136.0	184.2
Electricity, gas	106.5	110.3	125.5	128.4
General index	109.1	73.0	88.3	106.8

Industrial activity is not much below the 1929 level; and in the iron and steel, paper, building and electricity industries it is even higher. The figures do not prove the usual hypothesis that only war industries are working at high pressure, because the last three groups are not directly connected with war activity. The spectacular increase in building activity is reacting in many ways upon general activity.

Unemployment had fallen to 755,349 at the end of May, against 941,257 at the same time last year. The dispatch to the Colonies of 600,000 to 700,000 more young men has obviously eased the labour market; but the unemployment statistics could never be literally trusted. Com-

pared with a total unemployed figure rising sometimes to over 1,000,000, the number of men receiving relief in 1934 was only 155,650 on the average. In countries like Italy or France, however, where people live mostly on their farms or in small shops or are independent artisans, the total may not be as alarming as it looks. It may be that in Italy, when the figure falls to, say, 600,000, there are no true unemployed. Some of the 600,000 do not care to work at all, and the rest are simply waiting for a better opportunity, earning a living meanwhile on casual jobs. Notwithstanding the 755,349 men and women now on the unemployment rolls, entrepreneurs are at times finding it difficult to obtain good hands.

The wheat yield promises to be better than in 1934. It will probably be over 7,000,000 tons, against 6,200,000 last year. The State is this year advancing 900 lire per ton of wheat to the farmers who deposit it in public granaries, and leave to public bodies the task of selling it at the most favourable moment. As a result of the very low prices paid last year for cocoons (2 to 2.50 lire per kilogram), the Government has promised a premium of 1 lira in cases where the sale of cocoons is trusted to co-operative bodies.

Turin, July 6

262.

ITALY

A STEEP RISE IN PRICES. — The course of wholesale prices in Italy in 1935 has been largely different from other countries. As the *Economist* remarked in its issue of July 6th, in the face of stagnation or very moderate rises in Great Britain, the United States and Germany, and deflation in France, prices have risen steeply in Italy. Whether the rise should be called "inflation" is perhaps an insoluble terminological problem. There is, at any rate, no sign of an increase in the quantity of notes issued. From July 31, 1934, which was the point of minimum prices, to June 20, 1935, the circulation decreased from 13,330.2 million to 12,684.9 million lire; Bank of

262. July 27, 1935, pp. 176-177. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Wholesale prices' increase. Agricultural and export prices' relative improvement. State liabilities and assets and changes after 1922", dated "Turin, July 15, 1935", is kept in the Einaudi archives.

Italy circulating cheques from 366.7 million to 326.4 million lire; and ordinary deposits from 685.9 million to 521.8 million lire. Cheques issued from other banks increased only from 439.2 million lire at the end of June, 1934, to 443.1 million lire at the end of April, 1935; nor is an appreciable growth of bank deposits observable.

More remarkable perhaps than the absolute rise of the index of wholesale prices is the distribution of the rise between different groups in the period from July, 1934, to June, 1935 (1913=100):

	Absolute rise of the Index	Spread between Group Index and General Average
National agricultural products	+ 67.26	+ 35.56
Industrial raw materials	+ 4.45	- 12.85
Half-finished products	+ 29.16	+ 12.44
Finished products	+ 33.22	- 9.48
General average	+ 41.60	

Industrial raw materials, in fact, can be bought now at lower prices, comparatively, than a year ago. The rise in prices has mainly benefited the agricultural classes. If this sort of readjustment of relative prices continues, it may in the long run increase the velocity of circulation of money. Hoarding is not practised extensively in Italy; but such small hoards as do exist are to be found among the peasants. The rise in the prices of cocoons, wines, wheat and rice may therefore be a stimulant to direct investment, cattle breeding, improvements, etc.

Another feature of the Italian price rise is the lessening of the spread between export prices and the general index. In July, 1934, when average prices were at their bottom (272.91) export prices stood at 23.1 per cent. below the average. Now (June, 1935), when the average has risen to 314.51, export prices are only 15.6 per cent. below the average. Conversely, the excess of import prices over average prices has decreased from 7.6 to 3.8 per cent. Italy is now buying abroad at relatively reduced prices and selling at higher prices.

Finally, the cost of living is not rising as fast as wholesale prices: between July, 1934, and the first week of July, 1935, wholesale prices rose by 16.3 per cent. and the cost of living (Milan) by only 3.6 per cent.

THE STATE'S ASSETS AND THE NATIONAL DEBT. — A preliminary statement is now available of the result of the Treasury's statistical investigation into the national debt and the State's assets. The following are the figures

for June 30, 1934, with the *net* change (after eliminating double entries, compensating items and revaluations) compared with June 30, 1922 (in million lire):

LIABILITIES	June 30, 1934	Net Change since June 30, 1922
Current financial liabilities (overdue sums, Treasury debts, State notes and coins)	26,413	- 49,620
War indemnities due on June 30, 1922, paid thereafter	-	- 2,010
Debt:		
Consols and redeemable debts	93,617	+ 37,017
Sundry liabilities	5,831	- 2,691
Deferred payments	24,066	+ 20,009
	<u>149,927</u>	<u>+ 2,705</u>
ASSETS	June 30, 1934	Net Change since June 30, 1922
A) Financial assets (cash, Treasury credits and overdue sums receivable)	8,948	- 25,653
B) Disposable assets (credits, securities, real estate, State railways and other industrial State concerns assets) ...	61,781	+ 20,946
Total A) and B)	70,729	- 4,707
C) Non-disposable assets (land, sea and air war material and other materials for State services)	26,709	+ 12,464
D) Non-disposable scientific and artistic material	14,103	+ 73
	<u>111,541</u>	<u>+ 7,830</u>
E) Public works carried out by deferred payments or Budget expenditure since June 30, 1922	-	+ 15,459
Total net change	-	+ 23,289

The total liabilities on June 30, 1934, are slightly under 150,000 million lire. The figure of deferred payments includes all payments due for public works already finished or for which a definitive Treasury liability is extant.

The above calculation has not been published before. Sections A and B include such assets as can be described as of an economic nature, and which could be disposed of without impairment of the State's regular services. Sections C and D include assets which are essential to the State's existence. Section E represents the increase of wealth (not necessarily State assets) due to completion of public works.

With the aid of the two tables of liabilities and assets, the changes which have occurred in the last twelve years can easily be calculated. If we only compare the total increase of liabilities (+2,705 millions) with the decrease of sections A and B assets (-4,707 millions), we obtain a decrease of net assets or increase of net liabilities of 7,412 million lire. If we

include, on the assets side, the C and D sections we obtain a net increase of assets of 5,125 million lire. Finally, if we include section E, the increase of State and public assets amounts to 20,584 million lire. In the last figure are not included such expenditure as was made for reconstruction of assets destroyed by war, inundations, earthquakes, etc. (4,601 millions), or assistance to aqueducts and other health works (2,097 millions).

Turin, July 20.

263.

ITALY

A Royal Decree in the *Gazzetta Ufficiale* of July 22 provisionally suspended the duty of the Bank of Italy to keep a gold reserve not less than 40 per cent. of its note circulation and other sight liabilities. The last complete statement (that for June 30th) gives the percentage of gold reserve to total notes and sight liabilities as 41.55 per cent., and the percentage of gold proper to notes as 42.90 per cent. The Press emphasises that the suspension is due to the Treasury's decision to pay in cash all sums falling due in foreign countries; and that to keep faith and pay debts is vastly better than a formal homage to the 40 per cent. idol. True; but it could have been added that the 40 per cent. rule is bogus, discarded in theory and unworkable in practice; and that the function of a gold reserve is not to be frozen, but to be used, and even exported, when necessity arises. The vital points for the future of the lira are not the little more or the little less of the gold reserve, but the quantity of notes issued; and further, as has repeatedly been remarked in this correspondence, the composition of the "discounts" and "advances" items. So long as the note circulation is about 13,000 million lire and other sight liabilities do not exceed the present 1,000 million mark; so long as discounts and advances and "other debtors" are subject to the usual ebb and flow around normal levels, the lira is safe. In the past Italy has experienced monetary troubles almost only as a result of the inordinate rise in "discounts and advances", which means the issue of new

263. August 3, 1935, p. 231. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, without date and title, is kept in the Einaudi archives.

notes against frozen assets. That way came the disorder of 1893, and also that of 1916 and the following years. There is no trace now of such expansion. The figure of advances to the I.R.I. (Institute of Industrial Reconstruction) is even decreasing; and the severe tradition inherited from Stringher's days makes it reasonably certain that "discounts and advances" will be kept within due limits.

Turin, July 27.

264.

ITALY

THE NEW FINANCIAL DECREES. — The reaction of the markets to the new emergency financial decrees issued at Bolzano on August 28th was immediate and considerable; but the lost ground is already being gradually recovered. The market was naturally mainly interested in the decree which limits variable dividends distributed by commercial industrial companies and firms. No dividend higher than 6 per cent. of the paid capital or the average dividend paid in the last three years may be distributed in the next three years. The excess profits must be invested in State securities, which remain the property of the company or firm, but are not disposable for the next three years. It is not clear if the limitation of dividends concerns only joint stock companies, or if it will be extended to private companies with unlimited liability which do not publish and are not obliged to compile yearly balance sheets.

The reinvestment problem will perhaps be the most thorny. During the war, when a similar limitation of dividend was enacted, companies were free to invest non-distributable profits in the enlargement of their plants or operations. What will happen now if a company has to invest in new plant? Profits not being realisable, it will be obliged to resort to the market or to the banks, and to compete with the State for the supply of new sav-

264. September 14, 1935, pp. 515-516. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, without date but entitled "Italy. Limitation of dividends. Tax on bearer securities. Slump and partial recovery. Gestion of foreign securities to the Treasury. Government growing regulation of economic life", is kept in the Einaudi archives.

ings. Probably application will be made to the Treasury for authorisation to invest excess profits. As the establishment of new plant or the extensions of old must already in most cases be authorised by the Government, the present dividend limitation will have the effect of extending the authorisation system to all companies or firms.

Not less significant is the imposition of a tax of 10 per cent. on all dividends, interest coupons, bonuses and benefits accruing to bearer shareholders and to debenture-holders or bondholders. Only State securities are exempt from the tax. This tax reproduces the main features of the 15 per cent. war-time tax, which was abolished at the beginning of the present regime. It is not a compulsory tax, as the holder, by registering the security, can avoid the liability to pay it. Its aim cannot therefore be considered mainly and directly fiscal. But it will induce a number of holders to register; thus reducing the possibility of evading the personal income tax (supertax, as distinct from schedule income tax, for which the problem of evasion does not exist). Possibly the most important result, however, of the tax, coupled with the limitation of dividends, will be to make variable-dividend and private fixed-interest securities more similar to State securities. Savers will not discriminate between State securities, which have a fixed capital value, and fixed-interest and variable-dividend securities, the income from which many people hoped to see rising in consequence of present circumstances.

Markets proved immediately sensitive to the changed outlook for security yields. The following table shows the nominal capital, the most recent dividend and the market price of several representative variable-dividend securities:

(Lire)					
	Denomination of share	Last. div.	Price quoted on		
			Aug. 28	Aug. 29	Sept. 3
Bank of Italy	600	60	1,420	1,420	1,420
Olcese cotton mill	200	12	326	240	274
Snia Viscosa	230	16	429	335	353
Montecatini (fertilisers, etc.) ...	100	8	194	160	175
Fiat (motor-car)	200	10	445	342	360
Edison (electricity)	600	48	797	721	764
Eridania (sugar)	250	20	412	380	398
Italgas	10	0.70	13.75	12.50	13.30
Risanamento (real estate)	450	45	975	905	940
Pirelli (rubber)	500	47.50	1,226	1,030	1,105

The Bank of Italy's shares did not move, because they are registered and therefore not liable to the 10 per cent. tax, and also because dividends were already limited to 60 lire.

THE MOBILISATION OF FOREIGN SECURITIES. — The Stock Exchange was much less interested in the third emergency decree, which made it compulsory for Italian citizens living in Italy to cede against cash all credits held in foreign countries and to sell against nine-year Treasury 5 per cent. bonds all foreign securities (at the price current on August 28, 1935) and Italian securities issued in foreign countries (at the price current on December 8, 1934). On December 8th it was declared compulsory to make a statement of these credits and securities; and a part of them has already been sold by agreement to the Treasury. The amount of the remaining part, which the Treasury can now take over, is not known. Two authoritative statements can be quoted: 1) Signor Azzolini, Governor of the Bank of Italy, in his report of March 30, estimated at about 6,000 million lire the investments made by Italians in foreign countries from 1928 to May, 1934. Investments previous to 1928 ought to be added; and investments in unsaleable securities, in frozen credits, in lands, real estate and industrial ventures must be deducted; 2) Signor Angeloni, Commercial Counsellor to the Italian Embassy in Washington, estimates at 388.5 million dollars the total amount of Italian securities issued in the United States. Reimbursements reduced the total to 282 million dollars, of which about 50 per cent. are held by foreigners. The Italian Treasury, therefore, can still purchase the rest, viz. about 140 million dollars, which are the property of Italian citizens living in Italy. A part of this has already been purchased since December 8, 1934.

The Italian economic system is being more and more controlled by State Agencies. The recent creation of a Government monopoly for coal, tin, copper and nickel was designed to facilitate purchases and payments through the State Railway Agency, and the limitation, by order of the Superintendent of foreign exchange, of private compensations between imports and exports to amounts included in the general import quotas, excludes the possibility of increasing imports against old exports. Before December 31, 1937, all motor vehicles used for public or private passenger transport must be adapted from oil or nafta to gasogenous or other substitute systems. Industrial *autarky* is expected to reduce the deficit in the balance of foreign payments. So far, however, the task is proving extremely arduous. In the first seven months of the year, imports decreased from 4,572.5 in 1934 to 4,412.3 million lire in 1935; but exports decreased from 3,023.5 to 2,816.6 millions, leaving an import surplus of 1,595.7 this year against 1,549 millions in 1934.

Turin, September 8.

265.

ITALY

PRODUCTION AND EMPLOYMENT. — Statistics concerning production, employment, prices, the cost of living and consumption would be more interesting if it were possible to have up-to-date figures. A lag of a few months, however, is now usual. Indices of production (yearly or monthly averages; average for 1929=100) are as follows:

	Textiles	Iron and Steel and Engineering	Paper	Building	Electricity and Gas	General Index
1929	101.7	104.6	107.8	139.6	106.5	109.1
1932	64.4	70.7	103	78.9	110.3	73
1934	73.6	76.7	120.5	136	125.5	88.3
1934 —						
July	73.6	78.5	126.2	162.7	132.4	91.7
1935 —						
May	94.3	100.8	153.5	186.5	135.8	113.6
June	72.5	99.2	146.8	182	149.9	102.1
July	52.4	106.3	149.9	180.4	143.8	92.9

The indices for 1935 are generally and markedly better than those for past years. The exception of the textile industry is due to the influence of the crisis in the silk (spinning) industry, which is very depressed owing to the high prices of cocoons and the suspension of imports of cheap foreign cocoons. Accordingly, the silk production index fell in July as low as 9.5, against 50.6 and 103 in the same month of 1934 and 1930 respectively.

Rayon production, on the other hand, is buoyant. The index was 261.5 in July, 1935, against 189.7 in July, 1934, and 121 in 1930. In the iron and steel group activity is general; and copper and quicksilver are the only exceptions (52.3 and 50.5, respectively, for July, 1935). A production record was achieved by aluminium, the index of which rose in July to 525.5. The two most representative indices are, however, those for electricity and gas, which supply energy to all industries; and these both show a high degree of

265. October 19, 1935, pp. 755-756. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Industrial production. Employment. Cost of life, wages and consumption. Bank conversion from 3.50 to 5 per cent" and dated "Turin, October 9, 1935", is kept in the Einaudi archives.

activity. The drop in July, compared with June, is almost wholly attributable to the textile group.

It is not surprising, in face of the production figures, that the number of unemployed in August was 238,235 less than in August, 1934. The only mystery in the unemployment statistics is that there are still 628,335 unemployed. A relatively small number of these can be considered as true unemployed, perhaps not many more than the 104,043 men who at the end of May were in receipt of unemployment benefit. The most general complaint among employers is that men, however urgently required, are not forthcoming. Employed men are also being more fully utilised. From June to July the percentage of men employed for less than 40 hours and from 40 to 45 hours weekly decreased, respectively, from 34.1 to 27.1 and from 44.2 to 40.2.

PRICES RISING. — The working classes are being affected at once by increased employment and by rising prices. Wholesale prices are rising fast. The Milan Council of Economics' general wholesale price index is 339.5 (1913=100) for the fourth week in September, against the low point of 272.9 reached in July, 1934. Retail prices are rising more slowly. The national cost-of-living index was 71.6 in July, 1935, against 68.76 in July, 1934. Industrial wages in June, 1935, stood at 83, against 82.50 in June, 1934 (average for 1930=100). In agriculture the wage index was unchanged. As since 1930 the cost-of-living index has fallen by 21 per cent., it may be concluded that industrial employees are slightly better off.

An interesting sidelight on the condition of the working classes is given by the systematic inquiry conducted by the Milan Retailers' Federation on the sales of 58 retail shops. The sales index (January, 1934=100) was as follows:

	1934	1935
April	101.8	95.8
May	100.8	94.1
June	99.2	90.7
July	86.6	76.5
August	72.8	64.3

The statistics of commodities taxed in the 92 most important Italian cities are perhaps more representative. There is a decrease between the first seven months of 1934 and of 1935 in the consumption of wine (4,871,742 hectolitres, against 5,201,845), but no appreciable change in consumption of fresh meat. Consumption of salted meat increased from 9,410 to 10,185 tons, lard from 5,973 to 6,480 tons, and salted fish from

10,664 to 11,662 tons. Cheese consumption increased also from 33,584 to 36,158 tons.

Subscriptions to the new 5 per cent. Consols, issued at 95, are as yet not open to the general public, but only to public institutions and banks. The issue is not really a new one, and nobody is being asked to pay 95 lire for a security which can be easily bought at a lower price. The issue is another name given to an offer of a gigantic conversion of the existing 61,000 million lire $3\frac{1}{2}$ per cent. redeemable stock into a 5 per cent. consolidated stock. By paying 15 lire cash and surrendering the $3\frac{1}{2}$ per cent. redeemable the bearer is entitled to receive a new 5 per cent. Consol guaranteed for 20 years against future conversions. As the offer is attractive (additional interest of $1\frac{1}{2}$ per cent., against a capital payment of 15 lire) and as Italian savers do not attach much importance to the redemption value of the present $3\frac{1}{2}$ per cent. stock, it is probable that the conversion will be a success. If all holders accept, the Treasury will receive 9,000 million lire, a sum which will go towards defraying extraordinary war expenditure. From the market point of view, the conversion will require some aid, as nobody thinks that 9,000 million lire are to-day available or can become available in a few months. Nor does the Treasury need the whole sum at once. The banks and the Treasury will undoubtedly strive to ease payments so that subscribers are not forced to have recourse to Bank of Italy advances. In fact, subscriptions ought to be used to reduce the amount of notes issued, which in recent years has been increasing at a disquieting rate. Between June 30th and September 20th, the Bank of Italy's notes were increased from 13,028,600 million to 14,917,200 million lire. As soon as payments for conversion are made to the Bank, the amount of notes issued ought to decrease. The ideal circulation, i.e. that circulation which could be regarded as in equilibrium with the foreign exchange rate, can be said to be roughly between 11,000 and 13,000 million lire. The regulation of the note issue is strictly dependent on the success of the conversion.

Turin, October 9.

266.

ITALY

PUBLIC OPINION AND SANCTIONS. — The newspapers are more and more given up to stories of sanctions and counter-measures. The outstanding fact is the almost total disappearance of the sentiment of “traditional friendship” between Italy and England. It is to-day impossible to meet an Italian who dares to confess pro-League feelings. It has been said that the intervention of the League of Nations (which is taken here to mean in effect Great Britain) had worked the miracle of transforming the few remaining “anti-Africanists” here into fervent Colonialists. Sanctions have now accentuated this change of sentiment. Wholly apart from newspaper propaganda, sanctions are simply not understood by the man in the street. This may explain the extraordinary success of the anti-sanctions propaganda. “Why should they starve us?” the common people ask, and they are at a loss to find a reply.

To-day, concluding a series of articles on counter-measures against sanctions, *Il Sole*, the leading daily commercial newspaper, publishes a complete list of goods traded between Great Britain and Italy. The list is given in order that its readers may boycott anything coming from British sources. If goods are indispensable, people are urged to buy from non-complying League States: Austria, Hungary or Albania, or from U.S.A., Germany, Brazil, Paraguay and Japan. Sanctions are, of course, bound to do harm to Italy economically. But they will not prove unbearable, it is said, if consumers reduce their consumption or use substitutes. In the long run, according to protectionist writers, sanctions may even be beneficial. For instance, the meat consumed in Italy amounts to 700,000 tons per year, of which only 70,000 tons are foreign. The sale of meat is now limited to four days and four hours weekly. If consumption decreased proportionately the country would save 200,000 tons; therefore even if the decree has only a partial effect, it seems certain that a saving of 70,000 tons can be achieved. Imports of coal and coke in 1934 reached 11,781,354 tons, of which 7,451,352 tons came from “sanctionist” countries. Imports

266. November 16, 1935, p. 959. The article, unsigned, was published in the section: “Overseas Correspondence”. Its attribution to Luigi Einaudi is certain according to Graham Hutton.

from other countries can now be increased, as well as internal production, which in 1934 amounted to 373,593 tons. Existing electrical plants can also be worked to the fullest capacity, and, at a price, the production of lignite could be increased. Italy produced only 408,616 tons in 1934, but 1,656,963 tons were produced in 1917.

THE PROBLEM OF OIL IMPORTS. — A thorny problem is that of mineral oils, of which imports in 1934 were:

	Raw oil Tons	Lubricants Tons	Petrol Tons	Benzine Tons
Roumania	47,898	3,689	5,860	5,694
U.S.S.R.	7,277	6,433	3,936	9,132
U.S.A.	24,061	51,710	23,223	22,701
Persia	—	—	16,448	117,265
Columbia	63,688	—	—	—
Dutch E. Indies	—	—	5,569	3,282
Dutch W. Indies	—	—	3,908	18,936
Venezuela	—	—	2,093	5,440

The proposed counter-measures are threefold: first to increase imports from the U.S.A.; secondly to accelerate the transformation of engines from oil to other fuels; thirdly, to reduce consumption. Within limits, and informally, oil is rationed; but the simplest method is taxation. On benzine, for instance, the tax has been increased from 2,100 to 3,600 lire per ton.

The stocks of certain important commodities are as follow (in the ports and for goods marked * also in principal private warehouses).

	August, 1934 Tons	August, 1935 Tons	Index No. in August, 1935 (1930=100)
Wheat	390,613	327,643	157.2
Rice	5,718	10,525	126.2
Other cereals, vegetables, etc.	24,192	42,954	200.6
*Sugar	279,206	269,989	67.7
Coffee	14,743	7,873	94.6
Cheese and milk products	6,543	7,166	212.7
Cocoons	1,211	330	3.8
*Cotton	71,851	60,884	109.2
Wool	1,204	1,547	214.0
Fertilisers	3,498	9,921	40.7
*Wood	13,744	39,640	694.2
Sulphur	224,224	208,243	208.1

This list, compiled from data which are not fully representative, gives the impression that, except for a few commodities such as cocoons and fertilisers, Italy's warehouses are well stocked.

Building activity, which until August was rising, has now fallen off. Between January and August, 1935, the number of new rooms authorised in

the seventeen most important cities was 144,983, against 116,153 in the corresponding period of 1934. For the whole year 1934 the figure was 174,866 rooms, against 102,621 in 1933 and 81,568 in 1932. In September, 1935, however, the number of new rooms declined to 7,906, against 11,409 in September, 1934. The October and November figures will probably sink to zero, because the municipal committees, which authorise new buildings, were instructed in September by the Government to suspend new building schemes. Building materials will thus be economised.

The Official Gazette of October 31 publishes a decree (dated October 28) which authorises the Prime Minister to order, in case of exceptional circumstances of national necessity, that documents relating to the economic and financial situation of the State shall be kept secret and their publication suspended, even if provided by law. Obviously, only documents and data whose publicity would be dangerous to the State will be withheld from publication. The nation and the Government have always reaped great benefits from the full publicity given hitherto to monetary and financial statistics and data. From 1922 onwards the official statistics, and especially the Monthly Statistical Bulletin of the Central Statistical Institute and the Treasury and Bank of Italy balance sheets and monthly accounts, have stood very high in the eyes of the scientific world.

Turin, November 8.

FROM 1936 TO THE SECOND POST-WAR, 1936-1946

The Ministry of Finance, in its annual report for 1936, stated that the Government had a surplus of £100 million in 1935-36, and that it had a surplus of £100 million in 1936-37. The surplus of £100 million in 1935-36 was a result of the fact that the Government had a surplus of £100 million in 1935-36, and that it had a surplus of £100 million in 1936-37. The surplus of £100 million in 1935-36 was a result of the fact that the Government had a surplus of £100 million in 1935-36, and that it had a surplus of £100 million in 1936-37. The surplus of £100 million in 1935-36 was a result of the fact that the Government had a surplus of £100 million in 1935-36, and that it had a surplus of £100 million in 1936-37.

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267.

ITALY

THE BUDGET DEFICIT. – At the meeting of the Cabinet on December 20 the Finance Minister presented the final figures of the Budget for the financial year ended June 30, 1935. The deficit amounted to 2,030 million lire; or 398 millions less than the provisional figure reached on June 30th. Of the final deficit, 975 million lire is due to extraordinary expenditure in East Africa, 840 millions to a grant in aid of the State railways, and only 215 millions to the ordinary Budget. At the same Session the Minister presented the estimates for the year 1936-37, beginning on July 1st next. With revenue estimated at 20,312 million lire and expenditure at 20,291.5 millions, this Budget should close with a surplus of 20.4 million lire.

The most interesting item in the 1936-37 Budget is the disappearance of the State railways deficit. The Minister stated that this was due to two factors: 1) the increase in freight rates; and 2) the increase in the taxation of motor vehicles carrying goods. The new tax, he said, would accrue to the general Exchequer; and the Treasury would thus be enabled to reduce its financial claims against the Railways Administration. This seems to mean that the annuity for the service of a part of the railway debt created on July 1, 1905, has now been charged to the General Exchequer. The question who should pay this charge has long caused friction between the State railways and the Treasury. The Railways complained that they were burdened by a debt created for building and enlarging a railway whose purpose was mainly that of national defence and general economic progress rather than transport alone.

That a surplus was possible for 1936-37, the Minister added, was due to the exclusion of expenditure on the East African campaign. Only interest on the contemplated debt was included. It would be clearly impossible, he said, to provide for war expenditure in the ordinary way; and it was useless to include figures, which, at the best, would have been only guesses.

267. January 11, 1936, p. 69. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Budget results and estimates. State Railways budget balanced. Revenue increasing. Progress of 3.50% conversion. Stock exchange quotations. New Undersecretary for Foreign Exchanges", dated "Turin, January 3, 1936", is kept in the Einaudi archives.

FINANCING WAR EXPENDITURE. — That the Government revenue can be estimated at 20,312 million lire, against 17,998.4 in 1935-36, and 17,611.8 for 1934-35, may be taken as the effect of two causes: 1) the gradual improvement in economic conditions since the bottom was touched in 1932; 2) the detailed reforms in the taxation system. During the last session there were laid on the table of Parliament — and will shortly be voted, with minor amendments — two big legislative decrees on the income tax and succession, registration, exchange, stamp, etc., taxes, which will go very far to fill any hole still remaining in the fiscal net. Various methods of evading the income taxes and estate taxes will now be prevented. This means of increasing the revenue is certainly preferable to the imposition of big taxes. From time to time, especially since the beginning of the East African campaign, the air has been full of rumours of new big schemes of taxation; but the Finance Minister has so far refrained from experiments.

For the present, ways and means for financing the war expenditure are being found, so far as internal expenditure goes, in the yield of the conversion of $3\frac{1}{2}$ per cent. Redeemable Government stock into 5 per cent. consols. The total amount extant of $3\frac{1}{2}$ per cent. Redeemable stock is 61,000 million lire. It appears from statements in the daily Press that more than 30,000 millions have been converted, and applications are well on the way towards the 40,000 millions mark. This should give to the Treasury up to 6,000 million lire of new money. And, if the subscription list is not closed, a continuous rivulet of new money should be forthcoming during the whole of 1936.

Now that the conversion is in a fair way to succeed, the price of $3\frac{1}{2}$ per cent. Redeemable stock is improving. In November its buying and selling prices were as far apart as 62 and 68. Now, after a $1\frac{3}{4}$ per cent. dividend has been paid, the minimum is 64.55 and maximum 64.70; which means that the market is much more easy. The firmness of Government securities has also reacted favourably on the ordinary share market. Following the August and September slump, which resulted from legislation restricting dividends and the 10 per cent. tax on bearer dividends, the average index number of security prices (Milan Economic Board) touched bottom on November 2nd at 66.19, against 76.53 on August 2nd. On November 9th the index number of variable dividend securities had risen to 67.68. Statistical publications have since been stopped; but individual prices point to a strong market.

The control of foreign trade and the exchange structure is becoming more centralised. Professor Felice Guarnieri, who was appointed last spring as Superintendent of Foreign Exchanges, was yesterday promoted to the newly created post of Under-Secretary of State for Foreign Trade and Exchanges. The National Institute for Foreign Trade and the National Institute for Foreign Exchanges are to be subordinated to the new Under-Secretary, who is, in his

turn, directly dependent upon the Prime Minister. As the National Institute for Foreign Exchanges, which has the monopoly of all transactions in foreign exchanges, works through the agency of the Bank of Italy, the connection between Bank and Government is bound to become more and more close.

Turin, January 3.

268.

ITALY

Despite the extraordinary expenditure of 975 million lire for the East African war, the year 1935 marked a continuation of the effort to reduce the Budget deficit. Compared with 3,867 million lire in 1931-32, 3,549 lire in 1932-33, and 6,377 in 1933-34 – inclusive of 3,036 millions for the Consol's conversion – the deficit fell to 2,030 in 1934-35. Besides the East African expenditure, the main source of the deficit was a grant in aid of 840 millions to the State Railways.

The estimates for the current financial year 1935-36 were 18,067·9 millions of revenue and 17,788·6 millions of expenditure; i.e. a prospective deficit of 279·3 millions. The effective revenue for the first quarter (July-September) was 4,768·2 millions, and expenditure 6,409 millions, i.e. a deficit of 1,769·4, of which the main part (1,345·4) was due to the East African campaign. With revenue estimated at 20,312, and expenditure at 20,291·5 million lire, the Budget for the year 1936-37 closes with a surplus of 20·4 millions. This figure is, of course, exclusive of East African expenditure, which it is impossible to estimate. The Internal Public Debt, amounting to 91,442 million on June 30, 1931, increased to 105,389 on June 30, 1935, and 107,078 on September 30th. This figure does not include the external public debt (79,275,000 dollars on September 30th), nor other State liabilities. According to the latest official Treasury statement, the total of public debts and liabilities amount to 149,900 million lire, which exceeded by 2,700 million the corresponding figure for June 30, 1922. No figures can be quoted covering the period since September or at most October 20th, because the publication of Treasury accounts, Bank of Italy returns and all the relevant economic statistics were discon-

268. February 15, 1936 pp. 12-13. The article, unsigned, was published in the supplement: *The Economist. Commercial history & Review of 1935*. Its attribution to Luigi Einaudi is certain because the original manuscript, without date and title, is kept in the Einaudi archives.

tinued as from October. Statistics for population, education, crime and public assistance alone are now published.

LABOUR CONDITIONS. – Agricultural wages in August, 1935, were on the same level as the average for 1934: 75.84 per cent. of the 1930 basis. Industrial wages had risen from 83 in 1934 to 86 in August, 1935. The trend is probably upwards, owing to the enlistment of many young men and the needs of the war industries. The total number of unemployed fell from 887,345 in September, 1934, to 609,094 in September, 1935. The employment index (1929=100), which rose in 1933 from 72.40 in January to 83.39 in September (maximum), and in 1934 from 75.84 to 87.52, rose in 1935 from 83.10 in January to 100.05 in August. The cost of living (June, 1927=100) was 74.71 in 1933, 70.89 in 1934, and rose from 69.74 in January to 71.87 in September, 1935. The index of retail sales of clothing and home articles (1928=100), after falling from 137.03 in 1929 to 91.08 in 1932, rose from 69.45 in January, 1935, to 133.08 in June, 1935.

AGRICULTURE. – Crops were better than in 1934. The yield of wheat increased from 6.3 million tons in 1934 to 7.7 millions in 1935; of rice (raw) from 0.62 million to 0.66 million. Spring maize, however, yielded only 2.3 million tons, against 2.9 millions. It is understood that the wine grapes yield, which was indifferent in 1933 and 1934, was much better in 1935. Prices of cereals were good, and those of wheat and maize respectively rose to 1,150 lire and 850 lire per ton. High prices of cereals were a mixed benefit for agriculturists, as they increased the cost of production of meat, milk and cheese.

INDUSTRIAL PRODUCTION. – The new index of production of the Corporations Department (1928=100), which fell from 109.1 in 1929 to 73.0 in 1932, and rose to 80.5 in 1933 and 88.3 in 1934, rose further to 102.7 in June, 1935, and then fell to 92.8 in July and 95.2 in August. For the first eight months of 1935, the increase in production compared with the corresponding months of 1934 was 19 per cent. The smallest increase in industrial activity was in the electricity and gas branch (6.2 per cent.) and the highest in the engineering section (28.6 per cent.). The building industry followed with 25.7 per cent.; iron and steel next, with 21.7, paper with 15.9, and textiles with 11.6 per cent. Since August there has been great activity in the engineering, textiles and other industries, as a result of Government orders.

TRANSPORT AND TRADE. – Goods carried by State Railways in the first nine months increased from 30,751 million tons in 1934 to 33,169 millions in 1935. Sea-borne traffic, which went up from 9,683 to 11,272 million tons, was responsible for about two-thirds (1,589 million tons) of the above total increase in the railways goods traffic. Railway passengers increased

from 60,524 millions to 62,226 millions (9 months). The number of motor cars produced has increased greatly this year. The present high price of petrol (3.80 lire per kg.), oil and naphtha, will give a temporary fillip to railways transport; but more permanent assistance will come from the new stringent regulation of road traffic. Sea traffic expanded in the first nine months of the year; 14.3 million tons of goods arrived from foreign countries by steamers and 0.3 by sail in 1935, compared with 11.8 millions and 0.3 million respectively in 1934; 1.3 million tons were exported by steamers and 0.2 million by sail, against 1.1 million and 0.2 million respectively; while 98,138 passengers arrived from foreign countries in 1935, compared with 114,555 in 1934. Idle ships in the ports, which amounted to 828,518 tons at the end of 1931 and 302,062 at the end of 1934, had been reduced to 171,411 in September 30, 1935.

FOREIGN TRADE. — The decrease in foreign trade has continued:

(Million Lire)				Annual Decrease in the Gold Reserves of the Bank of Italy
	Imports	Exports	Import Surplus	
1928	22,213	14,999	7,314	1,035
1929	21,665	15,236	6,429	730
1930	17,347	12,119	5,228	717
1931	11,643	10,210	1,433	1,827
1932	8,268	6,812	1,456	838
1933	7,432	5,991	1,411	367
1934	7,667	5,225	2,442	1,540
(9 mths.)	5,670	3,821	1,849	—
1935	5,649	3,681	1,968	1,631.8

The approximate correspondence in 1934 and 1935 between the import surplus and the decrease in gold reserves is a symptom of the waning of emigrants' remittances and the decrease in other sources of invisible exports.

THE MONEY MARKET. — Deflation of the note circulation continued until the end of 1934. But owing to an increase in industrial and commercial turnover the circulation, after the usual seasonal reduction to a minimum of 12,268.7 million lire on February 20th, again increased to 13,028.6 million lire on June 30, 1935. The needs of industry connected with the East African expedition caused a further increase to 15,278 million lire on October 20th, which is the last published figure. Discounts and advances rose from 6,454.8 millions at the end of 1934 to 7,827 millions on October 20, 1935. Money was easy for the first eight months of the year.

The discount rate on commercial paper ranged from 3 per cent. to 5

per cent. and on financial paper from 3.50 per cent. to 6.25 per cent. In September money hardened somewhat; the foreign exchanges are strictly controlled by a State monopoly.

In the Stock Exchanges the prices of State securities were weak until August; 3.50 per cent. redeemable fell from 85 in December, 1934, to 67.2 in August, 1935, this contrasted with a rise in the index of variable-dividend securities from 65.1 at the end of December, 1934, to 76.5 at the beginning of August. The limitation of dividends and the 10 per cent. tax on non-State bearer securities depressed both markets further. At the end of the year there was some recovery in these prices.

269.

ITALY

REORGANISATION OF THE BANK OF ITALY. — A far-reaching reform was decided on at the last session of the Cabinet Council. The pivot of the reform is the transformation of the Bank of Italy from an ordinary *and* issuing bank, *primus inter pares*, into a fully equipped Central Bank on the modern pattern.

To understand the change one must go back to the old Risorgimento days, before 1850, when banks were practically non-existent; and two small banks, the Banca di Torino and the Banca di Genova, obtained the privilege of note issue, and, in the absence of deposits, were thus enabled to make discounts and advances. In 1850, these two banks were amalgamated under the title of Banca Nazionale degli Stati Sardi. With this unification, the National Bank *of* the Sardinian States become the National Bank *in* (not *of*) the Kingdom, because in the other Italian States there existed several other banks of issue. In 1893 the National Bank in the Kingdom assumed the title of Bank of Italy, and two other banks retained the right to issue notes: the Banks of Naples and of Sicily. In 1926, those two banks lost this right, which was reserved for the Bank of Italy.

The development of the Bank of Italy has thus assigned it a twofold

269. March 21, 1936, pp. 644-645. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution is certain because the original manuscript, without date but entitled "Italy. Banking system's reorganisation. Bank of Italy to become a pure Central Bank. The short term credit. The medium and long-term credit", is kept in the Einaudi archives.

function: that of issuing notes and the ordinary function of receiving deposits and making advances and discounts for the general commercial public. In the first respect the Bank of Italy was a central controlling bank; in the second it was a rival, sometimes a keen rival, of other banks in the quest for commercial paper. The rivalry was increasingly resented by other banks, the more so when in 1926 the Bank of Italy became the supervisor of the other banks.

Meanwhile, the reasons which had once prompted the bank of issue to provide deposits and discounts had ceased to be operative. Banking had grown and had become a very complex structure. Century-old saving banks had become colossal. Big joint-stock banks, after a period of gigantic expansion, had begun to ask the State to come to their rescue. Thousands of medium-sized and small joint-stock and co-operative banks rose, like mushrooms, sometimes with good results and sometimes bad. Old institutions like the Meridional Banks and pawn shops (Monte di Pietà) had acquired a high standing.

The new Act aims at systematising the effects of this haphazard historical growth. The structure will be as follows:

- 1) The Bank of Italy, transformed into a bankers' bank. Henceforth, it will be limited to *re*-discounting the paper of other banks and credit institutions. Advances, however, to the general public on State security collateral may still be made. All shares will be bought from present shareholders at the price of 1,300 lire net, plus current 60 lire dividend, the sum paid being inclusive of capital paid and reserves. New inscribed shares will be issued, but subscriptions will be limited to savings banks, public banks, insurance institutes and other corporate bodies.

- 2) Public credit institutes, which include such institutes as the Banks of Naples and Sicily, Labour National Bank, Siena Monte dei Paschi, Turin S. Paul Institute; which at the middle of past year had 4,400 million lire of saving and current deposits.

- 3) Public banks. In these are included all those banks which extend their activity to more than 30 provinces (the total of provinces is 93). Three banks, the Banca Commerciale Italiana, Credito Italiano and Banco di Roma, are included in this category; all of them are already controlled by the State, through the Institute of Industrial Reconstruction, which holds the greater part of their shares.

- 4) All other joint-stock and private banks. According to the latest report of the Bank of Italy there are 305 joint-stock banks, 282 private banks and 473 co-operative limited liability banks. These, together with the preceding group, control about 14,000 million lire of deposits, of which probably 3,000 million is the share of the three public banks.

- 5) Branches of foreign banks.

6) Saving banks, which are already semi-public bodies, mostly without shareholders.

7) Pawn institutions or *Monti di Pietà*. These are more like saving banks, though they retain some traces of their old pawn duties. Their deposits amount to 650 million lire.

8) Rural and agricultural banks. This category includes the greater part of what are known under the usual classification as co-operative unlimited liability banks, which control from 900 to 1,000 million lire of deposits.

If to the deposits above quoted we add 20,000 millions deposited in the Postal Saving Banks, we may safely conclude that out of a total of 60,000 million lire of deposits not more than from 10,000 millions to 12,000 millions are controlled by ordinary joint-stock or private banks (groups 4, 5 and 8), the rest being controlled by public or semi-public institutions.

The supervision of deposits and credit which, according to the 1926 law, was the duty of the Bank of Italy, is now to be transferred to a body called "Inspectorate for the defence of savings and the distribution of credit", presided over by the Governor of the Bank of Italy. A Ministerial Committee, put under the chairmanship of the Prime Minister, and composed by the Finance, Corporations and Agriculture Ministers and the Governor of the Bank of Italy, are to control the general policy of the whole credit system.

Apart from the banking system proper, whose functions should be generally restricted to short-term credit, the new law also regulates the medium-term and long-term credit markets:

a) Medium-term credit will be in the charge of the Istituto Italiano Mobiliare, which will absorb the old consortium for industrial advances.

b) Long-term credit will be in the charge of the existing Land Credit Institute, the Agricultural Credit Consortium, the Public Work Consortium, the Public Utilities Credit Institute, and the Foreign Labour Credit Institute.

c) The Institute for Industrial Reconstruction will renounce its long-term credit duties and concentrate upon its liquidation work, i.e. the administration and winding-up of industrial concerns purchased from the big banks in past years. All institutions included in groups *a)*, *b)* and *c)* are public bodies, the capital of which is, directly or indirectly, State-owned.

The new "Inspectorate" will extend its supervision not only to short-term credit banks and to medium-term and long-term credit activities, but also to the Stock Exchanges, and to all issues of securities and increases in the capital of joint-stock companies arranged through banks and credit institutions.

Turin, March 6.

270.

ITALY

DWINDLING GOLD RESERVE. — The report of the Governor of the Bank of Italy is well worth reading because for the first time since the decree of October 20, 1935, which suspended the publication of all economic and financial statistics, it has been deemed useful to give the public authoritative statistical information on some aspects of the Italian situation. The statistics in the report are not so full as in past reports; but, as far as they go, they are most interesting. A comparison of the Bank's position may be made as follows:

	('000,000 Lire)		
	December 31, 1934	September 30, 1935	December 31, 1935
Gold	5,811.5	4,251.4	3,027.3
Foreign assets	71.7	392.5	367.4
Total	5,883.3	4,643.9	3,394.6

The total for December 31, 1935, does not include the gold offered by Italian subjects in December and January or the resources obtained from the compulsory sale to the Treasury of their foreign securities and credits. The amount of these two items is not disclosed; but as the Governor writes that "these sums, which together form a big special reserve, remain at the exclusive disposal of the State for meeting future needs in the interest of the country", we may infer both that they amount to several thousand million lire and that they are still (March 31) in the possession of the State.

The total note circulation in Italy includes, besides Bank of Italy Notes, 10-lire State notes and silver, nickel and bronze coins:

	('000,000 Lire)			
	Dec. 31, 1934	Sept. 30, 1935	Dec. 31, 1935	Mar. 20, 1936
Bank of Italy circulation ...	13,145.3	15,273.4	15,456.1	14,490.0
State circulation:				
Paper (10-Lire notes) ...	—	218.0	1,951.6	—
Silver (20-, 10- and 5-Lire coins)	1,635.1	1,634.1		
Nickel and bronze	508.9	511.2	510.0*	—
Total	15,289.3	17,636.7	17,917.7	—

* Estimated.

270. April 25, 1936, pp. 181-182. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Bank of Italy's governor report" and dated "Turin, April 10, 1936", is kept in the Einaudi archives.

The figures for December 31, 1935, and March 20, 1936, do not include 840 million lire of banknotes, since the State note circulation forms part of the Bank's cash, which therefore must have been already included in the above totals. The present total circulation (Bank and State notes and silver, exclusive of nickel and bronze coins, which are an almost fixed amount), at about 16,500 million lire, is much lower than the two maxima of 22,000 and 21,500 millions reached at the end of 1920 and 1925 respectively. The Stock Exchanges were favourably impressed by the very moderate increase in the circulation.

Investors who were hesitating between industrial shares and Consols concluded that fears of inflation were unjustified. The present tone of the market is mediocre for industrials and very good for State securities. Treasury bonds are near to par. Joint stock companies are, in fact, contributing to the recovery in State securities, because in March and April most company accounts are closed and all excess of profits over 6 per cent. or past dividends must by law be invested in State securities.

Other interesting changes in the Bank of Italy's situation are as follows:

	('000,000 Lire)		
	Dec. 31, 1934	Sept. 30, 1935	Dec. 31, 1935
Discounts	4,005.1	4,559.6	4,897.6
Advances	2,449.7	3,006.8	4,090.5
Sundry debtors	639.4	1,654.5	1,547.6
Institute for industrial reconstruction ...	1,091.3	845.3	802.3

The transformation of the Bank of Italy into a Central Bank will not apparently have far-reaching effects on its activities. Direct discounts by the Bank, which are now to be abolished, amounted only to 600 million lire, not a big proportion of a total of 4,897 millions. On the liabilities side the most important figures are the following:

	('000,000 Lire)		
	Dec. 31, 1934	Sept. 30, 1935	Dec. 31, 1935
Bank's cheques	415.4	586.2	1,090.3
Current account deposits	390.1	496.3	
Treasury current account	300.0	300.0	
Time deposits:			
Private	273.7	107.0	285.2
Treasury	2,435.7	472.5	
Sundry creditors	703.5	838.7	955.5
Net earnings at the end of the year	55.3	—	100.9

The Treasury account is at a low level. On the other hand, as the price of $3\frac{1}{2}$ per cent. redeemable Government stock is rising, it is becoming more and more advantageous to convert it into 5 per cent. stock by paying the 15 lire supplement. The amount of conversions up to the present day is not known, but it is probably over 40,000 millions.

Turin, April, 10.

271.

ITALY

SANCTIONS AND PLANNING. – The end of sanctions has not meant any departure from the centralised economic planning which, if not created, was emphasised by the Abyssinian war. No change has been made, for instance, in the wool, cocoons and wheat monopolies held by Public State Agencies. The price of wheat was fixed on a basis of 1,080 lire per ton, which in an average year is a remunerative price for farmers. It appears that the present year's yield is under the average, owing to bad spring and summer weather. Since public elevators are as yet insufficient, wheat is left with the farmers, who receive a premium of 10 lire per ton for each month that well-conditioned wheat remains deposited in their granaries. The only relevant change in price policy is the reduction in the retail price of petrol, following a corresponding reduction of the sales taxes on all mineral oil products.

The newspapers are inviting motor-car owners to utilise the reduction, so that the State revenue may profit by it and the Treasury be encouraged to further reductions.

The most significant aftermath of the Abyssinian war is in social legislation. A clear trend towards a compulsory raising of the workers' standard of living is noticeable. When in October, 1934, during the drive against unemployment, weekly hours of labour were reduced from 48 to 40, a special allowance was granted to those with a large family, in order to indemnify

271. August 15, 1936, pp. 303-304. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Wool, cocoons and wheat State monopolies. Oil price reduced. Family allowances. Wages increases of 10 per cent. General or special increases", dated "Turin, August 4", is kept in the Einaudi archives.

workers whose total weekly wages were thus reduced. A fund was constituted which draws its main revenue from a contribution by men (and their employers) who continue to work for more than 40 hours weekly. By a recent decree, the family allowance is extended to all industrial workers, whatever their hours of labour; 4 lire weekly is the allowance for each child of less than 14 years of age. In 1935 allowances up to a total of 164 million lire were distributed. Now the amount is estimated at 344 millions yearly, of which 215 will be paid by employers, 86 by men and 43 by the Exchequer.

More important are the new collective labour agreements, which are being made public. On July 24th the building employers' and employees' Federations agreed upon an increase of 10 per cent. on the present general level of wages. The new agreement also modified many other points in the labour code; for instance, bonuses on dismissal, paid holidays, piece-work, premiums, etc. The agreement was stated by the press to cover 26,000 employers and more than 800,000 men; it relates not only to the building industry proper, but also to public works and similar occupations. On July 31st a similar agreement was reached between employers and employees in the iron, steel and engineering industries. A rise in wages of 10 per cent. was also accepted, with several other changes. Agreements in other industries are under consideration.

THE END OF DEFLATION. — What is most significant is the spirit of those wages increases. The first official announcement (by the Federations) of the building agreement stated that the increase was granted so as to make current wages better related to the power to purchase normal necessities of life; and the Turin *Stampa*, in its comments, observed that the "corporative" system had thus taken account of the change in the cost of living. This appeared to mark the starting-point of a general increase in wages and salaries, even of public employees, and a revision of the deflationary policy begun in 1930 and accentuated in 1934 by reductions of wages and salaries. Rumours, however, have been widely current, if not of a thorough reversal of policy, at least of a generalisation of the 10 per cent. increase in wages and salaries. These rumours, however, have been explicitly denied by Signor Cianetti, President of the industrial employees' confederation, in a speech in Genoa on July 30th. The "anti-inflationist policy" of the regime should not be reversed, he said. The workers were not aiming at inflation; they were convinced that a "fixed monetary standard" was the best guarantee of their standard of

living. Therefore they did not ask for a hasty general increase in wages. They asked only for a participation in the improvement of industrial conditions.

According to the speech of the most representative figure among the workers, the industrial workers are anxious that their demands for an improvement in conditions should not be deemed a precedent for corresponding changes in other fields: i.e. rises in rents, interest rates, and price levels. Their aim is to share industrial profits equitably with the employers. This is, from their point of view, good policy. Certain questions, however, emerge. Is there a sufficient margin of profits for carrying out the wage-raising policy? If not, will not prices be bound to rise? Already, many wine growers, who were unable to sell wine at remunerative prices because of bad markets in industrial districts, hope that wine prices will rise in consequence of the increase in the purchasing power of the working classes, their best customers. How will it be possible to discriminate between workers in firms making profits and firms making losses? Such discrimination in the same category is surely contrary to the policy of the employees' unions; and it is difficult to imagine how it could fit into a "corporate" system. If, then, the aim of the current changes is to adjust money wages to the cost of living, how will it be possible not to extend the changes to all workers?

Turin, August 4.

272.

ITALY

FALLING BIRTH RATE. — Turin, January 30. — The number of Italians living in Italy, which increased from 37,947,000 in December, 1921, to 41,176,671 on April 21, 1931, reached 42,528,000 on April 21, 1936 (the census date). It was estimated at 42,764,000 at the end of 1936. Disregarding territorial changes, marriages, births, deaths and the excess of births over deaths (per 1,000 inhabitants) changed as follows:

272. February 13, 1937, p. 358. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain according to Graham Hutton.

	Marriages	Births	Deaths	Excess of Births over Deaths
1872-75	7.9	36.8	30.5	6.3
1891-95	7.4	36	25.5	10.6
1911-14	7.4	31.7	19.1	12.6
1922-25	8.4	29.5	17.3	12.2
1926-30	7.3	26.8	16.0	10.9
1931-36	6.8	23.8	14.1	9.8
1936	7.2	22.2	13.5	8.7

The encouragements which have been given to new and large families have not been able to arrest the decline in births; the increase of population is due to improved sanitary conditions and consequent lower mortality. The natural increase in population was lowest in the north; in Piedmont there was an excess of births over deaths of only 0.7 per 1,000 inhabitants. The increase was largest in the south (Calabria 16.8, Lucania 15.2, Sardinia 14.5 per 1,000).

THE GROWTH OF ROME. — Internal emigration was highest from agricultural areas. In the Venetian provinces there was an excess of 43,932 emigrants over immigrants, in Marche of 5,497, in Abruzzi of 6,142, in Puglie of 6,479, in Calabria of 9,300, in Sicily of 27,883, and in Sardinia of 12,774. The greater part of the rural migrants moved into the industrial and trading regions: Piedmont had a surplus of 2,073 immigrants over emigrants, Liguria of 10,264 and Lombardy of 12,937. The largest quota went to Latium. The capital city took over 30,142. This is a highly significant index of the movement towards centralisation which is taking place in Italy. Rome has fast become the largest city in Italy. In 1935 and 1936 the excess of immigrants over emigrants in Rome was 34,915 and 34,331 respectively; 28,535 and 33,604 in Milan; 20,380 and 15,104 in Turin; 6,040 and 8,534 in Naples; 8,185 and 6,920 in Genoa; and 9,625 and 9,829 in Bologna. At the end of 1936 Rome reached a peak of 1,198,023 inhabitants; the population of Milan was 1,130,142, of Naples 886,952, of Turin 642,179, and of Genoa 631,202. The growth of the Corporative State has tended to make Rome, not only the political capital but also the real centre of all the banking, industrial and trading interests of the country. Economic life depends more and more on decisions taken in the capital, and the capital is therefore bound to grow relatively bigger and bigger.

273.

ITALY

The only available figures of foreign trade are those communicated by the Finance Minister to the Senate on December 22nd: there was an export surplus of 22 and 55 million lire in October and December, respectively. Clearing offices are at present the most important instrument for settling international indebtedness. There are a number of sums due to be paid in Italy which are held up because the National Institute for Foreign Exports has not received the money to pay Italian exporters:

	Sums due to Italian exporters	
	December 3, 1936	January 15, 1937
Germany	152.8	180.3
Great Britain	30.9	102.4
France	31.3	27.1
Czechoslovakia	25.1	26.0
Jugoslavia	20.4	22.3
Belgium	14.8	19.1
Spain	12.4	12.2
Poland	5.4	11.7
Totals	309.2	412.8

PRODUCTION. — Wheat production was smaller than in 1935, and consequently imports will rise to 1.5 or 2 million tons in the agricultural year 1936-37. The corn harvest was larger than the 2.5 million tons of 1935. The yield of cocoons increased by about 70 per cent. over 1935, when it was 17,400 tons. The yield of rice in 1936 was 681,795 tons, against an average of 666,000 tons for 1933-35. Olive oil production was lower than the average for 1933-35; prices are rising, and it is difficult to buy at the official price of 6,510 lire per ton for the best quality. Production of wine was below the average for the three years 1933-1935, but, because stocks are heavy, prices are still very low. Legislation is announced to restrict the increase of vineyards. The production of sugar for 1936-37 is estimated at 300,000 tons against an average production of 295,533 tons for the years 1933-35.

273. February 13, 1937 pp. 12-13. The article, unsigned, was published in the supplement: *The Economist. Commercial history & Review of 1936*. Its attribution to Luigi Einaudi is certain because the original manuscript, without date and title, is kept in the Einaudi archives.

Building is slackening owing to the cessation of the tax exemption for new buildings. Engineering, iron and steel, and textiles, are active. Rayon production was 40,242 tons in 1933, 51,053 in 1934, 72,356 in 1935, and is estimated at 90,000 tons in 1936.

New industrial projects are not increasing in number; it seems more easy for old firms to obtain permission to enlarge their plants, than it is for new undertakings.

PRICES. — Prices have risen continuously since 1934. The rise since September has been slow, although the lira was devalued at the beginning of October.

Wholesale Prices (1928=100)

Years and months	Raw Materials	Semi-finished Products	Finished Products	General Index
1929	95.3	97.5	94.4	95.4
1934	57.3	66.6	62.5	62.0
1935	65.6	74.9	68.3	68.2
" August	67.2	74.6	69.3	69.1
1936 January	72.2	90.8	71.2	74.8
" September	77.8	86.0	73.7	76.9
" December	79.6	87.8	74.7	78.3

Industrial Prices (August, 1935, and November, 1936)

		Raw Materials	Semi-finished	Finished	General Index
Textiles and leather	{ 1935	36.9	56.0	58.0	50.5
	{ 1936	56.8	70.4	69.7	65.6
Iron and steel, metals and engineering	{ 1935	74.4	87.1	64.3	76.0
	{ 1936	84.3	94.1	73.0	88.6
Coal, mineral oils and other fuels	{ 1935	86.4	97.6	—	93.1
	{ 1936	93.7	105.4	—	100.7
Chemicals and fertilisers	{ 1935	86.6	77.0	61.9	74.1
	{ 1936	88.1	85.2	83.8	85.0
Paper	{ 1935	—	—	—	61.2
	{ 1936	—	—	—	75.1
Wood	{ 1935	—	—	—	87.1
	{ 1936	—	—	—	109.9
Non-metallic minerals, glass, clay goods	{ 1935	62.8	75.2	64.1	72.2
	{ 1936	81.1	78.6	77.3	78.5
			Vegetables	Animals	
Food products	{ 1935	—	74.6	60.8	70.0
	{ 1936	—	80.2	77.4	79.3

The spread between the prices of raw materials, semi-finished and finished goods is generally diminishing. Industrialists had accumulated large stocks of raw materials, and the effect of the devaluation or alignment of

the lira was therefore not acutely felt. But the stocks now need replenishing, and the rise in import prices will probably lead to a further rise in domestic prices.

THE COST OF LIVING. – The rise in retail prices was less marked than in wholesale.

	(1928=100)		
	Wholesale Prices	Cost of Living	Foodstuffs
August, 1935	69.1	77.23	72.75
January, 1936	74.8	82.05	77.09
September, 1936	76.9	83.54	77.82
December, 1936	78.3	85.98	80.50
Increase between August, 1935 and December, 1936	13.3%	11.3%	10.6%

Between August, 1935, and December, 1936, increases in wages of from 8 to 10 per cent. were decided upon by agreement between employers and employees. There are no unemployment statistics, but since employment increased because of the movement of men to East Africa and the great activity of armament firms, it is very probable that earnings per family increased more than wages.

PUBLIC FINANCE, MONEY MARKET. – The State Budget was the controlling factor in the Money Market. There were deficits of 6,377 million lire in 1933-34, 2,030 millions in 1934-35, and 1,550 millions in 1935-36; as this last figure does not include the cost of the East African campaign, we can only guess at the call of the Treasury on the Money Market. Part of the total deficit (ordinary deficit *plus* East African expenditure) was met with means which did not press on the existing internal liquid funds: 1) the proceeds of the sale in foreign places of foreign securities and of Italian securities issued in foreign countries; 2) the decrease of the gold reserve of the Bank of Italy. Estimates of securities compulsorily sold to the Treasury vary between 4,000 and 6,000 million lire. How much of this amount could be and was sold in foreign places is not known; but the sum thus made available for foreign payments must have been substantial. According to the official report, the gold held in cash by the Bank fell from 4,704 million lire on August 31, 1935, to 3,027.3 on December 31, 1935. How much it has declined during 1936 is not known; but the amount held at the end of the year must have been substantial because the 41 per cent. devaluation of the lira gave (by the revaluation of the gold reserve) a not inconsiderable bonus to the Bank and the Treasury. The note circulation was increased. It is possible that these

means went far to meet the major part of the extraordinary needs of the Treasury; the remaining part was easily met by the conversion of the 3.50 per cent. redeemable into 5 per cent.

The Money Market responded easily to these calls; the Bank of Italy was able to reduce the official rate of discount on May 18th from 5 to 4½ per cent.; and the private rate was frequently even lower than the official one. The redeemable 3.50 per cent. began the year at 65.9 and closed at 74.5; the 3.50 per cent. Rentes rose from 68.6 to 75.5. Industrial securities progressed even more: La Centrale (electric) from 671 to 818; Meridionals (holding company, mainly electric), from 615 to 798.50; Fiat (motor car and other engineering), from 345 to 475.75; Savigliano (engineering), from 720 to 1,130; Snia Viscosa (rayon), from 348 to 463; Linificio e Canapificio Nazionale (linen and hemp), from 350 to 464; Olcese (cotton), from 228 to 369; Edison (electric), from 240 to 316; Gas, Turin, from 12.87 to 14.57; Eridania (sugar), from 411 to 495; Pirelli Italiana (rubber), from 1,086 to 1,323; Risanamento Napoli (real estate), from 905 to 952. The rise was in part due to the devaluation of the lira on October 5th by about 41 per cent.; the dollar exchange fell from 11.22 to 19 lire. But there is also a real basis of abundant money. Whether the abundance is due to effective savings, or to the fact that industrialists have in 1936 converted their stocks of raw material into liquid money, awaiting the best moment or the licence to re-convert into stocks, is a thorny point about which opinions differ.

274.

ITALY

STATE TRADING AND DEVALUATION. — Turin, February 9. — In a speech to the annual meeting of the Joint-Stock Companies Associations the Minister of Finance described something of the background of the devaluation, or alignment, of the lira. Autarky, he said, unavoidably produces an increase in the price of those imports which it is no longer desired to buy

274. February 27, 1937, pp. 465-466. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Alignment and autarky" and dated "Turin, February 9, 1937", is kept in the Einaudi archives.

from foreign countries. Duties were raised in past years against many foreign goods; for not a few of them trade was practically monopolised by the State. Wheat, for instance, was made liable to a duty of 750 lire per ton; and wheat growers were obliged to sell all their products to a public agency at a fixed price of 1,180 lire per ton. Devaluation took place when the gold price of primary products was rising; consequently the price of foreign wheat at Genoa was enhanced by two factors: world prices were rising and an increased number of lire had to be paid against dollars or pounds. It rose to 900 lire per ton. If the old duty of 750 lire were to be paid, the wheat agency could only import foreign wheat at a total cost of 1,650 lire per ton. The Exchequer could compensate the loss sustained by the agency in selling the foreign wheat at 1,180 to millers; but it was simpler to reduce the duty from 750, first to 470, and then to 180 lire per ton. Thus the duty on wheat is to-day lower than it has ever been during the last half-century.

THE ATTEMPT TO CONTROL PRICES. — The Government has tried since devaluation to prevent any rise in prices in paper lire. Undoubtedly the policy has been so far very successful. The policy was easy enough to enforce in certain cases: for instance, house and agricultural land rents were pegged for two years. The price of public utilities such as water, gas, electricity and transports, cannot be raised for the same period; an increase can, however, be authorised in consequence, for instance, of rising foreign coal prices. The cost of board and lodging in hotels and boarding houses was similarly fixed.

It was much more difficult to regulate the price of other goods. The general principle was to peg prices at the level of September, 1936; but as this was in most cases clearly impracticable, central and provincial committees were created to supervise prices. The Central Committee was presided over by the Secretary of the Fascist Party and included representatives of several public Departments and of Employers' and Employees' Confederations; the Provincial Committees were presided over by the provincial Fascist Party Secretary and included representatives of the interested Syndicates. Supervision was eventually concentrated on the price of those goods which enter into the cost of living of the working classes. The system is flexible; and prices are readily adjusted to the state of supply, as recently in the cases of cheese and olive oil.

These price regulations have an important bearing on the interpretation of the price statistics and indices which are being published again (from January, 1937) by the Central Statistical Office. Before the suspen-

sion of publication in October, 1935, price statistics registered average market quotations in a number of places. Now they register the prices fixed by the Central and Provincial Committees for all regulated goods, and the market prices of unregulated goods.

THE GROWING DUTIES OF THE CORPORATIONS. — Perhaps the most important recent piece of economic legislation was a Decree approved on January 9th by the Cabinet, which transferred from a special Departmental Committee to the Corporations' Council the duty of authorising new industrial undertakings or the enlargement of old factories. Hitherto authorisations have been given by a body in which civil servants predominated; now they will be given by a body which mainly consists of representatives of the employers and employees of the already existing factories. It will be interesting to follow the result of this change. The old Committee had perhaps a bias in favour of old factories; and the number of requests for starting new factories which were refused in the first six months of 1936 was relatively higher than the number of requests for extensions which were turned down. The bias against newcomers may change with the transfer of decisions to the Corporations' Council.

Senator Bocciardo, who is the head of a great semi-public armament firm, has drawn the attention of his colleagues to one result of the obstacles to imports and the limitation of new industrial plants; there is a tendency for the few domestic producers to form cartels or trusts (*Consorti*) to fix prices on a monopolistic basis. To prevent this he asked that key industries for war purposes should be made compulsorily totalitarian; that the distribution of work between members of such "*consortiums*" should be made according to their respective productive capacity; and that maximum prices should be fixed by Corporations for the products of trustified industries. Maximum prices should be fixed on the basis of the cost of production in new and up-to-date plants.

This is truly an ingenious way of solving the thorny problem of armament firms, without making armament production an exclusively State affair. The duties of the Corporations are, however, already becoming more and more exacting. It is true that the Government has the last word, through its delegates, in all Corporation decisions; but the Corporations are mainly professional and sectional bodies. If and when the Corporations' Council is transformed into the new Corporative and Fascist Chamber, some means will have to be devised to ensure that general will prevail over sectional interests. While sectional interests are rigid, the general in-

terest is flexible. Flexibility has hitherto been the main virtue of Fascist economic policy, and has provided the best safeguard against the dangers of over-regulation in the economic field.

275.

ITALY

THE CAPITAL LEVY. — Turin, March 25. — Before March 31st the compulsory 5 per cent. redeemable loan must be fully subscribed. The loan was intended to give the Treasury the financial means to colonise Abyssinia. In fact, the loan is a capital levy on the owners of houses and land. Houses include all buildings used for dwelling, industrial, commercial and office purposes. Property belonging to State and public bodies is exempt from the levy; and proprietors possessing land and houses worth less than 10,000 lire are exempt. Proprietors are entitled to deduct from the value of their property debts guaranteed by a mortgage.

A levy equal to 5 per cent. of the capital value of land and houses must be paid in the form of a subscription at par to a 5 per cent. redeemable 25-year loan. For instance, the proprietor of land and houses valued at 2 million lire, on paying 100,000 lire, will receive a redeemable security. He must, however, pay on the same houses and lands a yearly tax of 7,000 lire (0.35 per cent. on the 2 million lire capital value), which tax is to last the 25 years allocated for the redemption of the loan. This is an ingenious plan for splitting the capital levy into its two constituent parts: the payment of the capital and the loss of interest. The man who prefers to keep the 100,000 lire security will, in effect, lose for 25 years the interest thereon and 2,000 lire in addition; but he will get back at the end of the period, or even before, the capital sum. The man who needs the 100,000 lire may sell the subscribed security, losing the difference between par and the current price, and pay the whole 7,000 lire tax yearly for 25 years. If the taxpayer prefers to pay the capital levy, he may compound it at 90 per cent. If the taxpayer

275. April 10, 1937, p. 82. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Compulsory loan and capital levy" and dated "Turin, March 25", is kept in the Einaudi archives.

has not the money, he can ask his bank for an advance up to 90 per cent. of his levy. The advance must be granted at the same 5 per cent. interest, and must be redeemed by instalments to begin after two years. The duty of subscribing to the loan (not the duty of paying the 25 years' tax) can also be transferred to the National Insurance Institute or any other authorised insurance company if the taxpayer insures himself for the corresponding capital sum and period.

Pessimists feared that many taxpayers would prefer to ask for advances; in this case the capital levy would have had an inflationary effect. Actually it seems that proprietors prefer to pay with ready money, and only the biggest proprietors ask for advances.

The levy coincides with a period of abundant money. It may be that the abundance is temporary; and industrialists are lamenting their excess of cash, which they would prefer to convert into foreign raw materials. Whatever the cause, abundant money is a fact, which now enables banks to advance the necessary sums to capital levy subscribers without asking for advances from the Bank of Italy.

The Bank of Italy's shareholders' annual meeting, which is due in a few days, should throw light on the ways and means by which, notwithstanding the big war expenditure and the 1,500 million lire notes circulating in East Africa, the note issue was restricted to only 15,678 million lire on February 20, 1937, against 15,456 millions on December 31, 1935. In *The Economist* of March 13th it was asked if the item "gold deposited abroad due to the State, 1773 million lire", was now included in the gold reserve. It is not. This item is more important from a legal than a practical point of view. The interpretations put upon it by the Treasury and by the Bank of Italy are probably not exactly the same; it is a sort of suspense account, partly connected with final liquidation of the war debt to Great Britain. But the figure was never intended to be added to the gold reserve.

STOCK EXCHANGE OPTIMISM. — March is rich in shareholders' meetings. The undertone is mostly optimistic. The Banca Commerciale report states that profits were 18.3 million lire, against half that amount in 1935; that less than half the capital and reserves of the Bank (850 million lire) are now invested in buildings (146 millions) and foreign subsidiaries (252 millions); that deposits and current accounts increased during 1936 by 850 millions to nearly 6,000 million lire; that, against these liabilities, the Bank holds assets, all short-dated, distributed in advances and discounts averaging 100,000 lire per customer; that present profits do not take account

of the effects of devaluation and are mainly due to economies in overhead costs, which are estimated at 30 per cent. of the 1932 level. This is more or less the tale of most companies, which are emerging from the crisis with increased efficiency.

The bourses were not slow in registering the better feeling of the market. From December 31st to March 22nd quotations continued to advances:

MOVEMENT OF BOURSE QUOTATIONS

(In Lire)

	1936 (Lowest)	1936 December	1937 March
La Centrale (Electrical Trust)	590	795	827
Olcese (Cotton)	236	374	448
Snia (Artificial Silk)	332	468	483
Monte Amiata (Quicksilver) ..	30	55	65
Montecatini (Chemicals)	143	185	198
Fiat (Automobiles)	334	448	480
Edison (Electricity)	237	314	320
Eridania (Sugar)	407	495	501
Pirelli (Rubber)	1,050	1,226	1,403

The most interesting feature is that the advance took place in spite of the Treasury's strong opposition to speculation booms in variable-dividend securities. The Stock Exchange, it is true, is usually apt to exaggerate the position; but current opinion is that shares ought to be valued 50 or even 100 per cent. more than their present prices. After the monetary alignment, the valuations of assets must be substantially increased. The progressive taxation of dividends in excess of 6 per cent. can for a time keep down the distribution of profits; but in the end increased prices and profits must somehow find their way into the shareholders' pockets. The same reasons explain why the capital levy on land and houses was received with comparative calm. It is true that land and house rents were fixed for two years from October 5, 1936; but owners are hoping for better days when the legal limits are lifted. In the meantime the market for intending sellers is better. Selling prices of land and houses are higher now, compared with pre-devaluation days, by more than the 5 per cent. levy.

276.

ITALY

PRICES AND WAGES. – Turin, June 9. – The new monthly bulletins of the Central Statistical Bureau provide some valuable information, although, unlike the previous series which ended in October, 1935, the new one for May, 1937, includes no figures for banks of issue or about public finance. In general the indices point to rising activity. The index of raw material imports, which fell as low as 33 in 1936 (1928=100), stood in May at 67.3. The index of manufactured exports, which declined to 30.6 in 1936 (1928=100), stood in May at 60.2. There has, of course, been a considerable rise in wholesale prices which must be taken into account.

INDEX OF WHOLESALE PRICES (1928=100)

	1934	1936	September, 1936	April, 1937
Raw materials:				
Food	58.8	77.7	79.8	86.7
Others	47.5	65.4	64.1	88.7
Semi-finished goods	66.6	89.7	86	99.1
Finished goods:				
Food	64.9	73.5	74.8	79.9
Others	57.2	71.3	71.5	82.7
<i>General Index</i>	62.0	76.4	76.9	86.1

Prices had already risen above the lowest point reached in 1934 before the alignment of the lira in September 1936. The rise was absolutely and relatively more marked in the price index for production goods (from 79.7 in 1934 to 114.2 in April 1937, or 43 per cent.) than in the index for consumption goods (from 60.4 to 82.6, or 36 per cent.).

A comparison between the cost of living, according to the general national index, and industrial and agricultural wages is as follows:

276. June 26, 1937, pp. 732-733. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Production, prices, cost of life and wages. International trade. Extraordinary budget. Bank of issue and circulation" and dated "Turin, June 9, 1937", is kept in the Einaudi archives.

(AUGUST, 1934=100)

	1935	1936	Dec., 1936	Feb., 1937	April, 1937
Cost of living index	104.2	112.1	116.0	117.2	118.4
Hourly wages:					
Agriculture	101.8	101.8	105.4	—	—
Industry	102.3	107.0	105.8	104.1	—
Number of workers employed	115.5	113.9	111.1	111.2	—

The index of wages does not yet include the eight to ten per cent. rise given in April. Moreover the increase in the number employed should counterbalance the rise in the cost of living, so far as family budgets are concerned.

HEAVY IMPORT SURPLUS. — While the index of import values has risen from 38.9 to 61.2 (1925=100), the index of export values has only risen from 33.2 to 45.4. The import surplus in the first four months of 1937 was valued at 910.6 million lire against 659.2 million in the same period of 1936. The 1936 harvest was poor, and wheat imports in the first four months of this year were 779,868 tons, against 104,598 in the same months of 1936. The value rose from 45.4 million lire to 620.2 million lire.

Under the present conditions of compensated exchanges, quotas, clearings, etc., foreign trade is governed by peculiar rules. It may be useful to give a few representative figures of Italy's trade with different countries:

(In million Lire)

	1935		1936		First four months 1937	
	Imports	Exports	Imports	Exports	Imports	Exports
<i>Europe</i>						
Albania	18.2	22.1	28.3	29.8	18.5	10.6
Austria	272.2	134.2	368.8	191.3	223.6	82.2
Czechoslovakia	105.3	77.8	49.4	58.4	72.3	43.5
France	470.8	305.0	127.6	194.2	123.8	163.9
Germany	1,427.2	850.6	1,584.1	1,061.0	740.9	455.0
Great Britain	568.1	430.7	51.5	155.4	98.8	197.0
Greece	30.9	37.8	6.6	12.3	16.4	23.3
Jugoslavia	197.0	101.0	68.3	45.0	70.7	77.7
Roumania	241.0	67.0	220.9	20.4	124.9	29.7
Spain	111.1	93.4	44.4	12.9	41.8	14.1
Switzerland	246.5	337.6	231.4	340.5	81.8	154.2
U.S.S.R.	184.3	55.9	154.8	91.9	35.6	7.3
Hungary	154.3	80.2	219.6	112.4	138.3	62.4
<i>Mediterranean Basin</i>						
Egypt	137.1	96.8	85.8	93.8	80.1	79.7
Tunis	74.4	19.7	34.0	12.9	22.1	7.3
<i>America</i>						
United States	879.1	422.0	892.4	546.9	465.9	265.1
Canada	28.4	20.1	33.1	14.2	19.2	10.9

Argentina	295.0	162.0	178.5	158.2	344.9	86.3
Brazil	105.6	62.6	136.3	62.1	57.2	19.2
<i>Asia and Africa</i>						
British India	230.2	92.3	136.9	49.7	117.4	33.6
Union of South Africa	76.4	41.3	27.9	17.5	29.8	29.4

Except for France, Great Britain, Greece, Yugoslavia and Switzerland, there was a surplus of imports from all the principal countries in the first four months of 1937. As the gold reserve of the Bank of Italy increased in the same period by 1.2 million lire, we must conclude that the tourist expenditure and shipping revenue were sufficient to counterbalance the surplus. Indeed it was officially stated in the Senate that it was even possible to liquidate past commercial debts, such as, for instance, the 150 million lire due to Great Britain.

FINANCING WAR. — The report of the Governor of the Bank of Italy and the speeches of the Finance Minister have gone far, in spite of the non-publication of the usual figures, to explain how the Treasury managed to surmount the financial problem of the Ethiopian war, and of other exceptional expenditure. Extraordinary revenue, floating debts and other Exchequer means yielded during the thirty-four months from July 1, 1934 to April 30, 1937 a total of 25,288 million lire, which sufficed to meet the excess of total expenditure over ordinary revenue.

The principal items included in the total were:

	Million Lire
1) Cash premium paid by holders of 3½ per cent. redeemable for conversion into 5 per cent. (included the subscription price for about 1,087 millions new 5 per cent.)	6,804.6
2) Sums paid on account of the compulsory real estate 5 per cent. loan ..	5,376.4
3) Treasury bonds and bills and other advances (exclusive of 1,087 millions new 5 per cent., as above)	6,807.0
4) State notes issued	1,350.0
	<hr/> 20,388.0

The difference between the sum of these items and the gross total of 25,288 millions has probably been made up by the sale of foreign securities held by Italians living in Italy and transferred to the Treasury, and by the transfer to the Exchequer of the difference between the old and the new value of the gold reserve, which probably amounted to a round figure of from 1,500 to 1,600 millions.

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ITALY

REVIVAL IN INDUSTRIAL EMPLOYMENT. – Turin, September 25. – Industrial activity is rapidly increasing. The industrial North is the chief beneficiary. The general index of employment (1929=100), which went down to 79.41 in 1933 and 82.99 in 1934, increasing to 93.95 and 94.90 in 1935 and 1936, was in March last 100.67 and in April 104.01. The index of number of hours worked, after touching bottom in 1933 with 75.11, increased steadily from 77.80 in 1934 to 81 in 1935, 80.99 in 1936 and 91.40 in April, 1937. As employment in industry increases, employment in public works and land reclamation is reduced: the average number of hands daily occupied decreased from 261,960 in 1935 to 241,805 in 1936. In June, 1937, the total was 217,315, against 263,551 in the corresponding month of 1936. Activity is also decreasing in the building industry: 102,691 new rooms were authorised in 1933, 173,866 in 1934, 177,860 in 1935, 91,681 in 1936 and 49,188 in the first six months of 1937.

THE CHANGING BALANCE OF FOREIGN TRADE. – The figures of international trade are being keenly discussed in circles concerned with economic prospects in this country. At first sight the deficit in the balance of trade seems to be increasing. Excluding trade with the colonies in 1936 and 1937, the figures for the first six months of recent years are as follows:

(In million Lire)				
First six months	Imports	Exports	Imports less exports	Exports as percentage of imports
1929	11,937	7,599	– 4,378	63.4
1933	3,937	3,131	– 806	78.0
1934	4,079	2,635	– 1,444	64.5
1935	3,803	2,422	– 1,381	64.0
1936	2,786	1,254	– 1,532	45.3
1937	6,935	3,776	– 3,159	54.4
1937 *	4,092	2,228	– 1,864	54.4

* After making allowance for devaluation.

277. October 9, 1937, pp. 69-70. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, without date but entitled "Italy. Industrial activity. Agriculture. International trade. Internal traffic. Coal and metal trade monopolies", is kept in the Einaudi archives.

After the slump of the sanctions year imports and exports have more than recovered the lost ground. As, in the meantime, the lira was devalued by 41 per cent., adjusted figures are given, and the resulting deficit of 1,864 million lire is then comparable with the previous deficits.

As foreign travellers have arrived this summer in unprecedented numbers, the commercial deficit is expected to be easily compensated by the excess of invisible items. The returns of the 23 clearings now in operation give the following totals:

Date	(In million Lire)	
	To the credit of Italy	To the credit of foreign countries
February 26, 1937	219.3	81.1
July 30, 1937	201.5	172.8

The figures for the Anglo-Italian clearing, at the above dates, showed credits in the favour of Italy of 36.6 and 40.8 million lire respectively. But the real problem is not the balancing of international payments but their level. Imports and exports both remain near the lowest level of the post-War period. This seems to be the inevitable fruit of bilateral balanced agreements, monetary clearing and all the paraphernalia of modern protectionism. The table below compares Italian trade with her main customers in the first six months of 1936 and 1937:

	(In million Lire)			
	Imports		Exports	
	1936	1937	1936	1937
Germany	765	1,173	195	731
Argentina	100	747	63	150
U.S.A.	393	745	192	393
Austria	191	328	95	132
Hungary	113	286	56	99
France	66	241	14	245
Roumania	96	226	1	26
British India	47	222	0	51
Great Britain	30	195	3	308

Clearly, the alignment of the lira has given, quite apart from the abolition of sanctions, a fillip to exports; but the favourable effects of it are progressively vanishing in the face of the increasing cost of imports.

RECOVERY AND THE STATE MONOPOLIES. — The report on the State railways for the fiscal year 1935-36 gives some interesting figures concerning the financial results of the coal and metal trades monopolies,

both of which are administered by the State railways. They received 240.5 million lire from direct coal sales, 16.6 millions freights reimbursement, 0.9 million miscellaneous revenue, and 23.0 millions monopoly dues from private merchants on their direct purchases, giving a total revenue of 281 million lire. The expenditure was 175.2 millions purchase price, 52.9 millions freight, insurance, etc., 1.4 millions general expenses, or 229.7 millions in all. The net profit was thus 51.3 million lire, and of this 10 millions went to reserves and 41.6 millions were paid into the State railways exchequer towards extraordinary capital expenditure. In the same fiscal year the State railways obtained a profit of 24 million lire from the metals monopoly, of which 13.8 millions went to reserve and 10.1 millions were paid to the State Railway exchequer. The railways' opinion is that these huge profits were obtained without increasing the prices which would have been otherwise paid by customers, but the truth of this suggestion is very difficult to decide since prices have changed a great deal since the monopolies were established.

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ITALY

CORPORATIVISM IN AGRICULTURE. – Turin, October 11. – At present all the Corporations are busy discussing plans for autarky. The aim is to make the country self-sufficient by 1940. In agriculture the corporative system works mainly through intervention on the market and control of prices. It is most stringent for wheat, rice, wool, hemp and cocoons.

The agricultural year, though spoilt to some extent by insistent rains, has been generally very good. The yield of wheat, about eight million tons, is deemed sufficient for the country's needs; and foreign imports can be entirely dispensed with in the agricultural year 1937-38. As, moreover, the yield of maize and other secondary cereals, as well as of leguminous crops, was very good, a decree of September 12th authorised prefects to render compulsory the use of 10 per cent. of maize and other cer-

278. October 30, 1937, pp. 212-213. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Corporativism in practice. Regulation of agriculture prices and markets" and dated "Turin, October 11, 1937", is kept in the Einaudi archives.

eals in the manufacture of flour for bread. The object of reducing the use of wheat is to build up a stock of wheat in case the 1938 harvest should be deficient.

The grape crop was only average; but as wine stocks were everywhere exhausted the price of grapes is soaring. Accordingly, most of the comprehensive legislation enacted last April to regulate the wine industry, from the planting of vineyards to the sale of wine, is temporarily suspended. The Government is now content to promote the setting-up of public co-operatives, where growers can bring their grapes if market prices are not remunerative.

Owing to well-spaced rains fodder is plentiful. Farmers are in no hurry to bring cattle to the market and, while forage prices are lower, cattle prices are rising. Therefore, to stimulate deliveries to slaughterhouses, the maximum prices for young calves were raised. Meanwhile beef prices range near the maxima permitted by the corporative authorities, based on the average of prices in April and May.

RIISING TREND OF PUBLIC PRICES. — The olive oil yield is 220,000 tons, compared with 150,000 in 1936. No changes in price, therefore, have been sanctioned. In the case of rice, wheat, wool, hemp and cocoons, producers must sell all their output, with certain allowances for their own consumption, to public bodies. The trend of public prices is unmistakably on the increase. Wheat, for instance, must be sold at 1,250 lire per ton, compared with about 1,140 in 1936, and cocoons at 7.50 lire per kilog., compared with about 6.5 lire.

The wheat price is remunerative, and farmers are encouraged to adopt better methods of cultivation. The cocoon price, on the other hand, is barely equivalent, on the basis of the present gold content of the lira, to 1.20 old lire. At that price silkworm growing is a declining industry. The Government, by means of a very complicated system of levies and export inducements, is already endeavouring to maintain a cocoon price above the world market level; but to reach the equivalent of even the lowest price recorded in the century before 1914 the price would have to be raised to at least 15 lire per kilog. To rebuild the silk industry on the basis of domestic supplies will be very expensive.

In the year 1936-37 the internal level of rice prices was more or less equal to the international level. Therefore the Rice Board did not need to spend much money to encourage exports. The current yield will probably be good and abundant. Moreover, as farmers were complaining of rising

costs, and especially of wages, the Rice Board have increased the maximum price for raw rice from 780 to 920 lire per ton until January 31, 1938; it will then be raised to 940 lire by May 31st and 960 lire on September 15th. After that date the Rice Board will buy all unsold stocks at 960 lire.

The Corporative Committee have also increased, from September 20th, the price of domestic hemp delivered from public warehouses for export. The rise is justified by increasing costs. The interesting point is that the increase is higher for the best qualities. This is a move towards encouraging hemp growers to improve the quality of their product.

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ITALY

STATE EXPENDITURE. – Turin, December 26. – Recent debates in Parliament have thrown interesting sidelights on the condition of Italian finances. The general accounts for the financial year from July 1, 1935, to June 30, 1936, the accounts for 1936-37 and the estimates for 1938-39 have been discussed.

Effective revenue (not including debt items) and expenditure have been as follows in recent years:

	Revenue	Expenditure (Millions of Lire)	Deficits or Surpluses Total
		Total Budget *	
1930-31	20,387	20,891	– 504
1931-32	19,324	23,191	– 3,867
1932-33	18,217	21,766	– 3,549
1933-34	18,057	24,434	– 6,377
1934-35	18,817	20,847	– 2,030
1935-36	20,371	33,057	– 12,686
		Normal budget **	
1936-37 realised	24,702	23,413	+1,289
1938-39 estimate	25,035	25,072	+ 37

* Including all revenue and expenditure. **Excluding abnormal items, mainly East African.

279. January 22, 1938, pp. 165-166. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain according to Graham Hutton.

In the effective revenue for 1936-37 were included the gain obtained from the alignment of the lira in October, 1936, part of the gold offered to the Treasury in December, 1935, and the yield of the redemption-price of the compulsory land and real estate loan of 1937. The amount of these three items was not stated; but from previous ministerial statements they can be estimated at about 3,000 million lire. The estimated revenue for 1938-39 also includes a non-recurrent item, i.e. the yield of the extraordinary 10 per cent. tax on the capital of joint stock companies.

These non-recurrent items can be regarded as temporary devices to smooth over the transition from past Budgets balanced at or about 21,000 million lire to future Budgets which will be balanced at from 25,000 millions to 28,000 millions, including all expenditure, normal and not recurrent.

The alignment of the lira involved a reduction in the purchasing power of the lira of about 41 per cent., which is equivalent to a rise in the general level of prices of 69 per cent. Thus a Budget of 21,000 million 1927 (Volpi) lire should be reckoned as equivalent to a Budget of about 35,000 million 1936 (Thaon di Revel) lire. Taxpayers will bear no greater burden under the Budget of 35,000 million new lire than under a Budget of 21,000 million old lire – though there are bound to be many frictions in the process of transition.

The level of prices in October, 1936, was probably higher than was warranted by the legal level of the lira; and in so far as the alignment legalised only facts already in being, the increase in the price level and therefore in the national income will not come up to the hypothetical 69 per cent. On the other hand, State expenditure is largely fixed, as in the case of interest on public debts, contractual payments and subsidies, or only partially variable, as in the case of pensions and salaries. The future Budget level can thus be estimated at half-way between the old 21,000 millions, and the hypothetical 35,000 million levels.

NATIONAL INCOME. – Before the war, when total taxation amounted to about 3,000 million lire, statisticians used to estimate the national income at 20,000 millions; the share of taxation was thus about 15 per cent. Present estimates of the national income are very uncertain. In the prosperity years, from 1922 to 1926, a figure of 120,000 millions was quoted. At the bottom of the depression, round about 1931-32, pessimists reduced their computation to 60,000 millions – which was unduly low. Probably the total national income is not less than the higher figure of 120,000 millions. How

otherwise could the Italian people have paid about 30,000 million lire in taxes to the State and other public bodies in 1936-37, and at the same time have increased their savings?

Total time and current account deposits of all banks, including postal and ordinary saving banks and other deposit-receiving bodies amounted to 78,153 million lire at the end of 1933, and decreased to 74,245 millions at the end of 1935; they have now signally recovered to about 84,000 millions at the end of August, 1937. If we add in sums subscribed to State loans, Treasury bills (amounting now to 7,800,000 millions) and other loans, we reach a figure of from 25,000 millions to 27,000 millions as the estimate of total savings between January 1, 1936, and August 31, 1937.

Even if we deduct sums which are not properly new savings but merely reductions of trade stocks, there remains a substantial residuum of new savings. To this should be added the unknown sum of *private* investments in land improvements, new houses, new industrial plants and their enlargement. Even the hard-working and thrifty Italian small land-holders and artisans could not pay taxes up to 30,000 million lire in a year, and at the same time save not less than 15,000 to 20,000 million lire, if the total national income were less than 120,000 millions.

THE CAPITAL LEVY. — The Stock Exchanges do not appear to be unduly anxious about the extraordinary levy of 10 per cent. on joint-stock companies' capital. Land and real estate companies, already hit by the compulsory 5 per cent. loan, will be able to deduct from their capital the whole value of the land and houses possessed. All companies are authorised to deduct the sums invested in State loans and also up to 75 per cent. of other companies' shares which they happen to possess. Banks and companies receiving deposits are not subject to the capital levy, since their assets are fixed-interest bearing securities and did not benefit from the devaluation of the lira.

Joint-stock companies were authorised to issue new shares to raise the money to pay the levy. They are also authorised to transfer from reserves (even if hidden) to capital account a sum double that raised by shares issued against cash, giving to shareholders an equivalent number of free shares.

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ITALY

An additional number of figures to illustrate economic activity has become available this year, and it is now possible to indicate Italy's progress in the main branches during the last few years. In 1937 there was a marked recovery, and in many instances pre-depression levels were exceeded. The year was notable for an improvement in crops, except in vine cultivation, which still lagged behind 1935. Wheat, rice, hemp and cocoons are State monopolies, and the advance in wheat output was most marked.

INDUSTRY. – The Corporations Department has published indices of industrial production (1928=100).

	Textiles	Metallurgical and Engineering	Building	Electricity and Gas	General Index
1929	101.7	104.6	139.6	106.5	109.2
1932	67.4	70.7	78.9	110.3	73.0
1933	76.3	72.8	93.4	119.2	80.5
1935	76.8	102.6	162.3	135.8	102.4
1936	70.1	118.7	91.9	140.5	95.5
1937					
May	76.9	134.1	101.2	154.6	116.7
July	48.9	133.3	102.0	157.9	93.8
November	99.7	131.3	88.8	164.5	115.2

The textile and building industries were the only ones which did not exceed the highest levels of production in 1928 and 1929, largely because armament activity is not seriously felt in these trades.

FOREIGN TRADE. – Owing to the new importance of the Empire, the figures of trade with the colonies are now separated from those of trade with the rest of the world:

	(In million Lire)				Import (–) or Export (+)	
	Imports from		Exports to		Surplus in Trade with	
	Colonies	Foreign Countries	Colonies	Foreign Countries	Colonies	Foreign Countries
1933	78	7,354	212	5,779	+ 134	– 1,575
1934	93	7,582	259	4,965	+ 166	– 2,617

280. February 12, 1938 pp. 16-17. The article, unsigned, was published in the supplement: *The Economist. Commercial history & Review of 1937*. Its attribution to Luigi Einaudi is certain because the original manuscript, without date but entitled "Italy", is kept in the Einaudi archives.

1935	128	7,662	750	4,488	+ 622	- 3,174
1936	156	5,883	1,717	3,830	+ 1,561	- 2,053
1937	348	13,489	2,580	7,849	+ 2,232	- 5,640
1937*	209	8,093	1,548	4,709	+ 1,339	- 3,384

* Converted into pre-October -6-1936 lire at the legal rate.

The colonial trade consists mainly of supplies sent to military and civil corps operating in Oriental Africa. Among the items which covered the import surplus in the balance of payments the most important were tourists' expenditure and the sale of State-owned foreign securities. Imports fell slightly, but their value increased by more than 90 per cent.; while exports increased by almost 25 per cent. in volume, but only 37.4 per cent. in value.

PRICES, COST OF LIVING AND WAGES. — The year's movements in the index of wholesale prices and its components were as follows (1928=100):

	Raw Materials	Semi-finished Products	Finished Products	General Index
1929	95.3	97.5	94.4	95.4
1934	57.3	66.6	62.5	62.0
1936	76.2	89.7	72.8	76.4
1937 June	91.6	100.2	82.9	89.6
" December	93.9	109.4	91.3	96.4

After the alignment (devaluation by 41 per cent.) of the lira, wholesale price only increased by 25.3 per cent. Foodstuffs went up 22.3 per cent. in price, and the general cost of living rose by 17.6 per cent.; but, since wages per hour, the number of persons employed and the hours of work per man also increased, the average working family, working rather more strenuously, is probably better off than before devaluation.

MONEY MARKET AND STOCK EXCHANGE. — There was only very slight increase in bank deposits, and a very small transference of deposits from ordinary saving banks to other banks.

Average prices of 153 leading joint-stock companies' variable dividend shares increased from 100 in 1932 to 104.1 in 1933, 118.9 in 1934, 132.2 in 1935, 142.3 in 1936 and to a maximum of 183.3 in August, 1937. A decline to 167.5 in October then took place with a recovery to 174.8 in November. If we take as a basis prices for September, 1936, the month before the alignment of the lira, the index rose to 114.1 in December, 1936, and 128.9 in August, 1937, and then fell to 122.9 in November.

PUBLIC FINANCE. – On the basis of Budget statements by the Finance Minister, official papers and authorised *communiqués*, the results of the last two fiscal years can be summed up as follows:

	Million Lire
1935-36:	
<i>Expenditure</i>	33,057
<i>Revenue</i> (including 401 millions for first quota of gold offered by citizens)	20,371
<i>Deficit</i> *	12,686
* Of which expenditure in East Africa accounted for 11,136 millions.	
1936-37:	
<i>Expenditure: Ordinary</i>	23,413
<i>Revenue</i>	24,702
Including:	
i) Revaluation of the gold reserves of the Bank of Italy –1,649.	
ii) Redemption by taxpayers of the extraordinary land and house tax –1,117.	
iii) Third quota of gold offered by citizens?	
Surplus	1,289
but <i>extraordinary expenditure</i> was	17,519
and there was thus an actual <i>deficit</i> of	16,230

The ways and means used to cover deficits of 30,946 million lire in the last three years have been as follows:

	Million Lire
Nine years Treasury Bonds (1943)	2,000
Treasury Bills	7,800
Reconversion payment from 3.50 to 5 per cent.	6,805
Land and houses compulsory 5 per cent. loan (to April 30, 1937) (exclusive of 1,117 millions redemption as above)	4,260
Current Ways and Means Account:	
From the Deposits and Loans Bank	2,442
" Bank of Naples	1,285
" Bank of Italy	448
State 10 lire notes	1,350
	5,525
Foreign and foreign domiciled Italian securities (to April 30, 1937)	2,207
	<hr/> 28,597

The difference between this total and the total deficits was easily raised by the Treasury by various means not yet published. After the revaluation of the gold reserves of the Bank of Italy, the results of which (1,649 million lire) were appropriated by the State, the gold reserve of the Bank of Italy stood in December, 1937, at 4,022 million lire, the same as in October, 1936.

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ITALY

RECORD CAPITAL ISSUES. — Turin, March 14. — This will be a record month in the history of capital issues by Italian joint-stock companies. Shareholders' meetings of both small and large companies have, one after another, approved of capital increases ranging from 10 per cent. upwards of existing capital. In recent years, capitalisation has been modest:

		1935	1936	1937
<i>New Companies:</i>	Number	2,499	1,976	2,195
	<i>Capital (million lire)</i>	311	354	2,283
<i>Old companies:</i>	Number	1,540	1,820	1,940
	<i>Capital (million lire)</i>	2,787	2,608	3,281
1) Increased capital	Number	2,003	1,851	1,530
	<i>Capital (million lire)</i>	1,511	924	2,053
2) Liquidated	Number	989	923	772
	<i>Capital (million lire)</i>	1,810	1,327	621
3) Diminished capital	Number	493	125	656
	<i>Capital (million lire)</i>	- 224	710	2,889
Net increase (+) or decrease (-)	Number	493	125	656
	<i>Capital (million lire)</i>	- 224	710	2,889

The total number of joint-stock companies now stands at 20,018, with a capitalisation of 47,695 million lire. The increases now projected will be mainly a matter of writing up. The force behind the movement is the recent tax of 10 per cent. on the capital of joint-stock companies. The tax decree authorised companies to issue new shares up to the amount required to pay the tax; and, to make the shareholders swallow the pill happily, authorised companies to issue, at the same time, up to two bonus shares for each paid-up new share. The issue of bonus shares can be justified by the writing-up of undervalued assets; for all assets, in a general way, can be deemed undervalued since the alignment of the lira in October, 1936.

The reaction to this enabling legislation will probably not be uniform among all the 20,018 companies. Most of them are one-man or family concerns, which will not be over-anxious to increase their capitalisation. The most important companies, whose shares are quoted on the Bourses, will,

281. April 2, 1938, p. 12. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain according to Graham Hutton.

by watering their capital, achieve two objects: first, they will be able to distribute higher dividends, without increasing the percentage, and so without incurring the penalty of the new progressive taxation on dividends over 6 per cent; and, secondly, by writing up their assets, they will increase the yearly amortisation sums which, according to income tax regulations, they are allowed to deduct from gross income.

UPWARD TREND IN TRADE. — Signor Lenti has analysed in *Il Sole* the recent trends in Italian foreign trade. Excluding trade with the colonies, the figures are as follows (in million lire):

	Imports	Exports	Import Surplus
1934	7,582	4,965	2,617
1935	7,662	4,489	3,173
1936	5,883	3,830	2,053
1937	13,489	7,849	5,640
1937*	7,958	4,631	3,327

* Calculated in pre-alignment Lire.

Expressed in index number (1929=100), the volume and value of foreign trade have moved as follows:

	Volume		Average Prices	
	Imports	Exports	Imports	Exports
1929	100	100	100	100
1934	75.54	73.10	46.56	45.51
1935	73.11	65.92	48.61	45.63
1936	45.98	49.31	58.89	51.14
1937	67.95	80.42	92.00	64.75

Thus, the volume of imports has fallen by 32.05 per cent. since 1929; while exports fell only 19.58 per cent. But, since import prices declined only 8 per cent., while export prices fell 35.25 per cent., the terms of trade moved against Italy, and the surplus of imports in value reached a record high level.

This deterioration in the terms of trade is most marked in the case of semi-finished and finished products. As food and raw materials are a large part of imports, and semi-finished and finished products bulk largely among exports, improvement can only be achieved by a relative increase in the export price of finished products. How far such an increase could go without jeopardising exports is the crucial problem of Italian foreign trade.

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ITALY

EMPLOYERS' INDIVIDUALISM. – Turin, April 9. – Some view of the forces behind the corporate system is provided by the Report of the Senate's Finance Committee on the Budget of the Corporations Department for 1938-39. The following table summarises the figures relating to employers' membership of syndicates on December 31, 1937:

	"Firms" represented by employers' syndicates (Numbers in thousands)	"Firms" in actual membership	Contributions	
			Compulsory	Voluntary
			(Value in lire)	
<i>Industry:</i>				
Industrialists	155.9	85.1	99,634.3	11,480.1
Artisans	798.4	349.2		
House proprietors	4,373.2	101.2		
Agriculture	4,168.9	991.9	78,667.9	4,676.4
Commerce	898.8	615.8	48,126.7	14,204.4
Credit and insurance	19.6	7.6	7,157.5	548.3
	10,414.8	2,150.8	233,586.4	30,909.2

Membership of the syndicates is free. But the various syndicates represent all the employers (or employees) working in their respective fields, and collective bargains, entered into by them, are binding upon all. Therefore, all firms (or, on the employees' side, all workers) pay compulsory fees, but only members pay voluntary contributions. The ratio between the number of employers and employees in membership and the number of employers or employees automatically represented by the syndicates is an index of the extent to which the corporate system is permeating the various economic groups.

House proprietors seem to be the social group in which the associative tendency is felt least: only 101.227 owners have sought syndicate membership, compared with a total number of 4,373,157 proprietors of houses in cities and villages. There are, of course, no employees in this group, of which to take account; the great majority of proprietors live in their own houses and have no tenants.

282. May 7, 1938, p. 296. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Corporative statistics" and dated "Turin, April 9", is kept in the Einaudi archives.

WORKERS' ORGANISATION. — The associative tendency is, on the other hand, at its highest in the trade, industrial and artisan groups. There, employers' syndicates are daily in discussion with employees' syndicates about wage and conditions of labour. In all sections, however, voluntary contributions figure in a minor role, compared with compulsory fees.

On the employees' side the picture is somewhat different:

	Number of men represented by employees' syndicates (Numbers in thousands)	Men in actual membership	Contributions	
			Compulsory	Voluntary
			(Value in Lire)	
Industry	3,667.9	2,633.4	48,609.0	20,026.1
Agriculture	3,087.0	2,595.0	33,195.5	23,251.9
Commerce	527.3	473.3	13,042.3	4,019.3
Credit and insurance	62.0	53.5	2,723.2	359.2
	<hr/> 7,344.2	<hr/> 5,755.2	<hr/> 97,570.0	<hr/> 47,656.5
Arts and professions	184.6	123.7	9,054.5	7,582.0
Co-operative bodies	11.9	10.1	11,560.0	

Arts and professions make up a special group, where there is no distinction here between employers and employees; and co-operative bodies have a membership mostly overlapping with employees' syndicates. The striking feature in the employees' syndicates is the much more complete identification between the number of men represented and the number of men in actual membership. In the commercial group almost all employees are also members; and in the industrial section only a strong minority still remains out of the organisation. In the employers' syndicates the voluntary contributions are less than 14 per cent. of the compulsory contributions, but in the employees' syndicates they are almost 50 per cent. over the whole field, and as much as 70 per cent. in agriculture.

The difference may be partly due to the greater age of employees' organisations. The workers were organised as far back as the 'seventies and 'eighties of last century; and the need of organisation was always more keenly felt by employees than by the more individualist employers. Membership of the syndicates, moreover, is, or is held to be, a legal pre-requisite, or at least a preferential condition, for employment. In so far as State intervention in economic matters and the need for keeping in touch with Government Departments is steadily increasing, however, membership is bound to increase on the employers' side.

RIISING IMPORT SURPLUS. — In the first two months of 1938, the import surplus in foreign trade (not including colonial trade) increased compared with 1937. Imports were valued at 2,088.0 million lire, compared with 1,795.2 millions; and exports at 1,257.3 million lire against 1,105.2 millions. The surplus has thus risen, for January and February, from 689.9 million lire in 1937 to 830.7 millions. In trade with the Italian colonies, on the other hand, there was an export surplus of 400.6 million lire compared with 307.7 millions in the first two months of 1937. Exports to the colonies, however, are mainly paid for by the Government and are needed for civil servants and the army or for the economic development of the colonies.

Industrial employment is running at a high level. The general monthly index of industrial production (1928=100) was 105.2 in January, 1938, against 99.4 in January, 1937. Group indices were as follows: for textiles 84.7, against 78.8 in the corresponding month of 1937; for iron and steel and engineering 130.2, against 122; for paper 139.8, against 119.7; for gas and electricity 150.7, against 129.4; for mining 117.7, against 105.7; and for chemicals 127.6, against 94.8. The only exception to the general rise was in the building industry, where, owing to the abolition of the 25-year tax exemption and competition for iron and steel and other materials, the index fell from 95.1 in January, 1937, to 81.4 in January, 1938.

283.

ITALY

FINANCIAL DEFICITS. — Turin, May 22. — The Finance Minister's Budget Speech and the report of the Governor of the Bank of Italy enable us to form a fairly complete picture of the financial and monetary situation. The expenditure on Abyssinia and exceptional defence requirements amounted to 975 million lire in 1934-35, 11,136 million lire in 1935-36, 17,519 million lire in 1936-37, and 9,000 million lire (estimated) in 1937-38. The deficits on the State Budgets in this period did not tally exactly with these figures. Sometimes the ordinary Budgets showed surpluses, sometimes deficits: in 1936-37, for instance, the total deficit was 16,230

283. June 11, 1938, pp. 601-2. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain according to Graham Hutton.

millions, and in 1937-38 the total deficit was estimated at 12,000 millions. The total sum for which extra-revenue means were required during the three fiscal years from July 1, 1934, to June 30, 1937, and the first nine months of the current fiscal year, 1937-38, may be estimated at about 36,000 million lire.

The chief disclosed ways and means whereby these deficits were covered were as follows. Some 5,885.8 million lire of 3½ per cent. redeemable stock was converted into 5 per cent. consols. This did not increase the public debt, since the nominal capital was not increased. New 5 per cent. consols to the value of 950.1 million lire were issued. A compulsory 5 per cent. redeemable loan brought in, up to March 31, 1938, some 7,004 million lire. Whether this sum ought to be included in the public debt is an open question. For a portion, amounting to 1,301 million lire, no securities were issued, taxpayers preferring to pay cash and free themselves from the obligation of subscribing to the loan. For the rest, subscribers are nominally State creditors; but, since they also pay an annual tax equivalent to interest and redemption on the loan, the transaction does not involve any additional burden on the Exchequer.

Ordinary one-year 5 per cent. Treasury bills, amounting to 8,937 million lire, have also been issued; and, between July 1, 1934, and March 31, 1938, advances from the Cassa Depositi e Prestiti increased by 6,507 million lire. These five items amount to about 29,300 million lire. The balance of some 7,000 millions was obtained from the sale of foreign securities compulsorily handed over to the Treasury; and by the issue of special 4 per cent. Treasury bonds and 10-lire State notes.

In addition to these measures to cover the deficits the market was called upon to satisfy other public demands for capital. According to the Finance Minister's estimate, some 6,700 million lire were required for land reclamation, electrification of the State railway, land improvement in Libya, hydro-electric development and similar enterprises subsidised, encouraged or guaranteed by the State. The Istituto per la Ricostruzione Industriale, which is now a permanent financial agency of the State, and the owner of several of the most important industrial concerns of the country, made, in 1937 and 1938, two bond issues of 900 millions each for the equipment of the Iri-Mare and Iri-Ferro. And this large public demand for new capital is wholly additional to the usual demand from private businesses and agriculture. Banks catering for short-term deposits increased their discounts and advances between August 31, 1936, and June 30, 1937, by 2,100 million lire to a total of 29,800 million lire.

NO INFLATION. — Savings were sufficient to meet all these requirements, which amounted, during the three years and nine months between June 1, 1934, and March 31, 1938, to about 50,000 million lire. No recourse to inflation was needed. The note circulation was 16,296.5 million lire on December 31, 1935, 16,525.1 millions on December 31, 1936, 17,468.1 millions on December 31, 1937, and 16,279.7 millions on April 30, 1938.

Two items in the balance sheet of the Bank of Italy bear, however, witness of the pressure of public and semi-public requirements:

(Millions of Lire)			
	Dec. 31, 1936	Dec. 31, 1937	Increase
Discounts	1,266.7	2,544.2	1,277.5
Advances	1,599.3	4,508.0	2,908.7
	<u>2,866.0</u>	<u>7,052.2</u>	<u>4,186.2</u>

Advances made to subscribers to the compulsory 5 per cent. loans were the most important cause of these changes. By the end of 1937, the Bank of Italy had advanced for that purpose 255 million lire to banks, 869 millions to insurance institutions and companies and 428 millions directly to taxpayers. Moreover, banks and clients had asked for special advances of 2,027 millions (included in the 4,508 millions above), with 5 per cent. consols as collateral, and these were also due to the need for subscribing to the compulsory loan.

Certain general conclusions can be stated. The revenue of the four years, 1934-35 to 1937-38, can be estimated at 90,000 million lire. If we add to this figure, to cover deficit expenditure and semi-public subsidies or guarantees, a further sum of 49,000 million lire, we get a total of all expenditure (direct and indirect, current and capital) of 139,000 million lire. This works out at an annual average for the four years of just on 35,000 million lire, increasing, say, from 21,000 millions in 1934-35 to 40,000 millions in 1937-38.

Of present lire 40,000 millions are equivalent to about 24,000 millions of 1927 lire and about 6,400 millions of pre-war lire. This is more than the Italian taxpayer can bear; but Italian finance is probably moving towards an average ordinary Budget of 30,000 million lire. To reach this lower level will not be easy. But, meanwhile, savings should be sufficient to meet the further deficits which will be temporarily incurred.

The country's financial structure is becoming increasingly stabilised. There is, however, one precarious point in the structure. Of the assets of

the Bank of Italy, amounting to 13,500 million lire, made up of discounts and advances, State securities, ordinary advances to the Treasury and advances to the Istituto per la Ricostruzione Industriale (which is State owned), some 80 per cent. is tied up, directly or indirectly, with the State or State agencies. How liquid are these assets? Great care is surely needed, on the part of the Finance Minister and the Government of the Bank, to avert the danger that they may become frozen.

284.

ITALY

THE FARMER'S YEAR. – Turin, December 20. – With the end of the year in sight, one is better able to assess Italy's general economic trend. Only basic productional factors will be considered in this letter; and by far the best of these is that of agriculture. Contrary to widespread impressions and even to official prophecies earlier on, the wheat yield was a record at 8.1 million tons, against 8.06 millions in 1937, 6.1 millions in 1936, and 7.6 millions in 1935. The increase was reaped in Central Italy (1.53 million tons in 1938, against 1.48 in 1937), in Southern Italy (1.97 millions, against 1.84 millions), and in the Isles (1.36 millions, against 1.22 millions); whilst in the North of Italy the yield fell from 3.51 million tons to 3.23 million tons, this fall being due to a smaller acreage sown (1,426,677 hectares, as against 1,523,943 hectares), and to poor sowing conditions in the plains in autumn, 1937. In not a few hill districts, even in the North of Italy, there were old men who could not remember so plentiful a year. As the price was raised from about 1,150 lire to 1,400 lire per ton for soft wheat, agriculturists had reason to rejoice over the financial results of the year, even if the spring drought obliged them to sell a part of their cattle at declining prices.

284. December 31, 1938, pp. 704-705. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. The agricultural year. Industrial production. Increased employment and dilution of labour. Commercial balance and terms of foreign trade", dated "Turin, December 10, 1938", is kept in the Einaudi archives.

Later rains and the present good weather may keep the total harvest at the level reached in spring, 1938. For lesser cereals yields were variable (in thousand tons): rye, 112.7 in 1938, against 120.3 in 1937 and 145.8 in 1936; barley, 247.7, against 233.3 and 254.8; oats, 629.1, against 619.7 and 596.9; spring maize, 2,743.5 (estimate), against 3,059.2 and 2,727.6; rice, 686.5 (estimate), against 740.2 and 733.6. Hemp yielded 108.6 thousand tons, against 108.4 thousand tons and 87.3 thousand tons; linen (fibre), 3.6 thousand tons, against 2.8 thousand tons and 3.2 thousand tons; raisins, 5,832.4 thousand tons (estimate), against 5,514.2 thousand tons and 5,518.7 thousand tons.

The increase of fertilisers has probably played a notable part in these improved results; 1,364.1 thousand tons of perphosphates were consumed in the agricultural year 1937-38, against 1,358.6, thousand tons in 1936-37; 209.7 thousand tons of sulphate of ammonia, against 190.6 thousand tons; 218.6 thousand tons of calciocyanamide, against 181.5 thousand tons; 41.7 thousand tons of nitrate of ammonia, against 16.1 thousand tons; 124.0 thousand tons of nitrate of calcium, against 111.1 thousand tons; 43.1 thousand tons of potassic salts, against 31.3 thousand tons. The only noticeable decrease refers to nitrate of sodium; 59.1 thousand tons in 1937-38, against 89.0 thousand tons in 1936-37 and 83.6 thousand tons in 1935-36. But nitrate of sodium has to be imported.

INDUSTRIAL PRODUCTION. — Indices of industrial production are mixed (basis 1928 = 100):

	Average Monthly Indices			1937		1938		
	1935	1936	1937	July *	Sept. **	Mar. **	Aug. *	Sept.
Textiles	76.8	70.1	83.7	48.9	98.9	104.2	45.7	76.2
Iron and steel	112.2	106.0	114.1	124.6	121.9	120.3	130.8	134.3
Engineering	101.9	120.0	131.8	134.2	132.2	134.9	131.0	136.1
Paper	139.7	123.2	150.0	166.6	156.6	143.6	125.8	142.4
Bulding	162.3	91.9	95.9	102.0	99.8	82.6	95.0	98.1
Electricity, gas, etc. ..	135.8	140.5	154.6	157.9	169.6	147.9	162.1	169.5
Minerals, etc.	98.9	110.3	127.8	138.0	134.9	133.0	136.4	141.7
Chemicals	99.6	107.4	133.2	129.9	148.4	136.0	114.9	138.1
General Index	102.4	95.5	108.7	93.8	117.7	114.7	88.9	108.6

* General index at lowest of year. ** General index at highest of year.

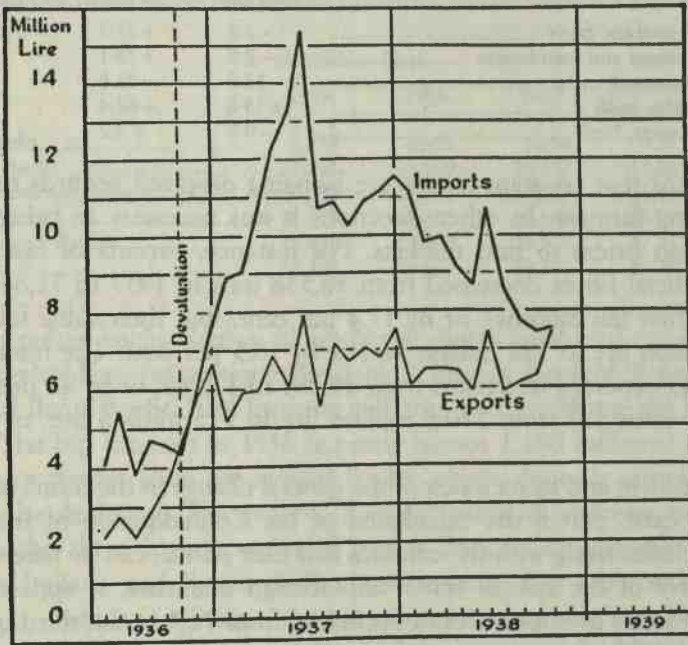
As in other countries there is noticeable in 1938 some slackening of industrial production. The 1938 bottom (August) is lower than in July, 1937; and the highest point reached (March) is lower than the 1937 maximum (September). But the recession has not shown the same potency in all industries. Most affected was the textile group, where even rayon's index fell from 457.6 in September, 1937, to 350.0 in 1938. Growing difficulty in obtaining raw materials is said in industrial circles to have caused the diminished activity, but it is felt that the search for substitutes may produce results before long. Important men in this as in other industries which aim at autarky say, in effect: "We are now in the first stage of the process, and must deal with quality and with costs; in the second stage, which we are nearing, we shall deal only with costs; and in the third stage we shall be able to offer better quality and lower prices. Then the consuming public will be conquered. Only results will tell if we shall be successful with all industries". To-day it can only be said that the best brains in industry are making strenuous efforts to discover new methods and new products.

THE TERMS OF TRADE. — For the first time in many years the deficit in foreign trade was reduced in October almost to vanishing point (in million lire, exclusive of trade with the colonies and East Africa):

	1937			1938		
	Imports	Exports	Deficit	Imports	Exports	Deficit
January	890	516	374	1,113	609	504
February	905	590	315	982	649	333
March	1,064	596	468	996	649	347
April	1,228	687	541	917	645	272
May	1,327	603	724	870	596	274
June	1,536	787	749	1,071	744	327
July	1,076	554	522	859	592	267
August	1,091	714	377	774	618	156
September	1,029	673	356	743	633	110
October	1,094	705	389	755	747	8

While the monthly deficit rose in 1937 to 749 million lire and was never less than 315 million lire, in 1938 it fell continuously until in the last quarter it rapidly sank to the insignificant figure of 8 million lire. This result was mainly achieved by reducing imports. In some cases the bounty of nature was responsible. Thus wheat imports in 1938 were only 24,632 tons, against 164,789 tons in 1937, and maize imports 4,302 tons, against 11,762

ITALY'S TRADE BALANCE



tons. In other cases there was a change-over from foreign to national sources. Thus imports of oleaginous seeds decreased during the same ten months from 335,066 tons in 1937 to 155,664 tons in 1938. Again, lower prices made it occasionally possible to maintain or even increase quantities imported at a lower total cost (in thousands of tons and million lire):

	Changes in	
	Quantity	Price
Cotton, raw	- 2.1	- 164.4
Scrap iron	+ 387.8	- 32.0
Copper	- 0.1	- 74.7
Nickel	+ 516.8	+ 2.2
Tin	+ 771.8	+ 2.4

On the export side, good prices were obtained for fresh fruits and horticultural products: For instance:

	Changes in	
	Quantity	Price
Vegetables, fresh	- 2.2	+ 27.3
Oranges and mandarines	- 2.8	+ 18.1
Lemons	- 11.0	- 21.8
Fruits, fresh	+ 15.8	+ 62.4
Flowers, fresh	- 0.2	+ 4.2

It seems that constant efforts are bringing deserved rewards to these enterprising farmers. In other directions it was necessary to bring some pressure on prices to find markets. For instance, exports of rayon and other artificial fibres decreased from 38,538 tons in 1937 to 31,848 tons in 1938 (first ten months), or by 17.4 per cent.; but their value fell from 488.8 million lire to 398 million lire, or by 18.5 per cent. The number of motor cars exported decreased from 29,281 to 17,048, or by 42 per cent.; but their value fell from 570.9 million lire to 213 million lire, or by 63 per cent.

A complete and exact index of the general change in the terms of trade does not exist. But if the calculation of the Confederation of Industry, which includes trade with the colonies and East Africa, can be taken as representative of the special trade with foreign countries, it appears that while the index of import prices decreased from 71.3 in the third quarter of 1937 to 62.0 in the corresponding quarter of 1938, the index of export prices increased from 46.9 to 47.7.

It is too early to draw conclusions from so short a period; future development in the present trend of regulated foreign trade will tell if this favourable reversal of the general terms of trade will become permanent.

285.

ITALY

SAVINGS. – Turin, January 16. – Statistics of savings are published by different offices and arrived at by different methods, so it is not easy to get a homogeneous picture of the whole of them. The following table, is-

285. January 28, 1939, pp. 178-179. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Savings" and dated "Turin, January 6, 1939", is kept in the Einaudi archives.

sued by the Inspectorate of the Institute for the Protection of Savings, embraces all the most important banks (or those whose deposits exceed 5 million lire):

	(In million Lire)			
	1935	1936	1937	January to August 1938
Public Banks	5,539	6,922	7,254	9,273
National Banks	12,241	13,589	14,152	14,013
Ordinary and Co-operative Banks ..	10,992	12,505	12,955	13,481
Savings Banks	18,559	19,302	19,687	18,717
Postal Savings Banks	19,958	22,309	25,523	27,315
Total	67,289	74,627	79,571	82,799

The public banks (Istituti di credito di diritto pubblico) consist of six non-shareholding corporations: the Bank of Naples, Bank of Sicily, Labour National Bank, the St. Paul Institute at Turin, and the Monte dei Paschi at Siena. The big increase in 1938 is partly (about 1,100 millions) due to a shifting of figures from the savings banks, whose deposits appear, therefore, to be declining. The national banks (Banche di interesse nazionale) include the three biggest ordinary banks: Banca Commerciale Italiana, Credito Italiano and Banco di Roma; but since they are controlled by the I.R.I. – which is a State-owned corporation, they also may be classed as non-private banks. The savings banks (which include the Monti di Pietà, or “pawn” banks) are likewise non-shareholding corporations; and, of course, the postal savings banks are State-owned.

Out of 82,799 million lire, 83.8 per cent. (69,318 millions) are deposited with public banks and only 16.2 per cent. (13,481 millions) with private banks; and if one takes the end of 1936 as the practical dividing line between the lira of December 21, 1927 (0.0792 grammes of fine gold) and the lira of October 5, 1936 (0.04677 grammes), deposits are seen to have increased by 7,338 millions during 1936 and by 8,172 millions during the following 20 months. It appears that the alignment or devaluation of the lira has not been followed as yet by a corresponding increase in the monetary national income, and that therefore the margin for savings has proportionately decreased.

BANK INVESTMENTS. – The movement of deposits in banks of various kinds is depicted in the following table. (See table at p. 760).

Public banks and savings banks increased, and ordinary banks decreased, their cash and bank balances. The figures for discounts, advances and correspondents usually reflect trends in industry and commerce; but the big increase in discounts and correspondents by public banks probably

refers to money lent to new public bodies (such as those which monopolise the trade in silk cocoons, wheat, hemp, rice, coal, various minerals, etc.), or to industrial concerns controlled to the I.R.I.

(Million Lire)					
	December 31				Oct. 31
	1934	1935	1936	1937	1938
<i>Public Banks</i>					
Cash and bank balances	588	755	1,376	1,109	1,543
Discount	1,649	1,940	1,085	2,517	2,710
Advances	1,016	752	640	925	776
Correspondents	890	1,265	2,232	2,664	2,905
Contangoes	280	138	217	221	140
Securities	1,532	1,410	1,814	1,960	2,572
<i>Savings banks</i>					
Cash and bank balances	1,555	1,199	1,597	1,550	1,570 *
Discounts	1,550	1,361	1,129	1,140	412 *
Advances	339	396	359	683	404 *
Contangoes	332	202	194	223	160 *
Loans	4,522	4,715	4,512	4,401	2,566 *
Loans (mortgage)	1,896	1,825	1,651	1,727	1,281 *
Securities	8,829	8,910	8,976	9,086	6,675 *
<i>National and Ordinary Banks</i>					
Cash and bank balances	—	—	5,349	5,393	4,761
Discounts	—	—	9,795	9,926	9,662
Advances	—	—	175	1,013	1,415
Correspondents	—	—	5,710	5,961	6,244
Contangoes	—	—	1,118	1,095	981
Securities	—	—	3,361	3,565	4,143

* Inclusive only of banks with deposits of over 200 million lire or about 70 per cent. of total deposit.

Stock Exchange financing, which in our country takes the form of contangoes (*riporti*) from end to end of monthly settlements is being progressively reduced; and speculative activity on the Stock Exchanges came, indeed, to a standstill during 1938, the most marked increase in business being in State securities.

CREDIT MACHINERY. — Mortgage loans by savings banks to landowners and householders are decreasing, as are also loans by the Land and Real Estate Credit Institutes (Istituti di credito fondiario). The total of land bonds issued against mortgages decreased from 1,333 million lire in 1934 to 314 in 1935, 194 in 1936, 214 in 1937, and 184 in the first ten months of 1938.

Nor can a noticeable expansion be registered in loans granted by the

Agricultural Credit Institutes towards permanent land improvements (rural house building, irrigation, roads, etc.); and these fell from 152 millions in 1934 to 136 in 1935, 82 in 1937 and 133 in the first nine months of 1938. By contrast, loans to agriculturists for current farming operations have undergone a great expansion: 668 million lire in 1934, 818 in 1935, 1,744 in 1936, 3,369 in 1937, and 3,455.3 millions in the first nine months of 1938. The expansion seems to be due to advances granted by the Agricultural Credit Institutes to finance larger cash purchases of wheat, silk cocoons, hemp, rice, etc., by public bodies. In cases of this kind, discounts and advances to merchants by ordinary banks are replaced by loans to public bodies which trade in agricultural products.

The Agricultural Credit Institutes in their turn go to the Bank of Italy for finance; and discounts and advances by the issue bank are therefore bound to rise.

(In million Lire)			
	Discounts	Advances	Total
1933	14,656.4	9,701.6	24,358.0
1934	13,049.9	20,409.5	33,459.4
1935	14,176.3	24,625.4	38,801.7
1936	11,758.8	20,758.9	32,517.7
1937	7,801.1	33,320.6	41,121.7
1938 (11 months)	12,064.9	32,764.1	44,829.0

This increase in the number of bills discounted and advances made need not have a durable influence on the number of notes issued. Agriculturists, who were wont to sell their products as and when the market called for them, now sell their wheat or hemp, etc., immediately after the harvest. Notes issued thus return almost at once to the banks and are depleted gradually during the year. It may be said that the increasing control of economic activity by State organisations makes the financial market more and more dependent upon those same organisations.

NEW INVESTMENT. — Private demand for new capital is moderate. After the slump, joint stock companies, which reduced their capital from 52,281 million lire at the end of 1930 to 44,095 millions in 1935, increased it again to 44,805 millions in 1936, to 47,695 millions in 1937, and to 52,760 millions by October, 1938. In the increase of 5,065 millions for the first ten months of 1938, winding-up accounted for about 1,297 millions, the formation of new companies for 298 millions, and new issues by old companies for the remainder. Fresh money required was, however, much less

than 5,065 millions, new issues by old companies being in part paper transactions, such as transfers from reserve to capital account. The 1938 10 per cent. levy on joint stock company capital gave the statutory opportunity for these transfers.

As new savings are thus going mostly into State concerns, changes in the rates of discount and interest have lost much of their significance, and variations are few. During 1938 the official rate remained unchanged at $4\frac{1}{2}$ per cent.; the private rate for commercial paper hovered between 5 and $5\frac{1}{2}$ per cent. at Milan, and the rate for contangoes on stock exchange monthly settlements was between 4 and $5\frac{3}{4}$ per cent. Contango rates on $3\frac{1}{2}$ per cent. Rentes oscillated between 4 per cent. at the beginning of the year and 1-2 per cent. in September, when a moderate bear speculation took place, increasing again to 3 per cent. in the last months. Rates were generally $\frac{1}{2}$ - $\frac{3}{4}$ per cent. higher than in 1937.

286.

ITALY

AGRICULTURE AND INDUSTRY. — The agricultural year was reasonably satisfactory, yields being generally higher than in recent years. The wheat crop was 8,100,000 tons, against an annual average of 7,323,000 tons during the three years 1935-37. Similar comparisons for other crops run as follows:

(Tons)	Annual Average 1935-37	Actual Yield 1938
Rye	141,000	113,000
Barley	210,000	248,000
Oats	539,000	629,000
Spring maize	2,981,000	2,936,000
Rice	753,000	686,000 (est.)
Hemp	87,000	109,000
Flax	2,500	3,600
Grapes	6,185,000	5,971,000

286. February 18, 1939, pp. 18-19. The article, unsigned, was published in the supplement: *The Economist. Commercial history & Review of 1938*. Its attribution to Luigi Einaudi is certain because the original manuscript, without date but entitled "Commercial History. Italy", is kept in the Einaudi archives.

Price were from 10 to 20 per cent. higher.

The following are the indices of industrial production published by the Corporation Department (1928=100):

	1935	1936	1937	1938 11 mos.	1938 Nov.
Textiles	76.8	70.1	83.7	82.3	94.6
Iron and steel	112.2	106.0	114.1	111.3	115.1
Engineering	101.9	120.0	131.8	134.1	138.7
Paper	139.7	123.2	150.0	142.8	147.6
Building	162.3	91.9	95.9	89.7	98.4
Electricity, gas	135.8	140.5	154.6	156.9	152.6
Minerals, etc.	98.9	110.3	127.8	135.0	137.8
Chemicals	99.6	107.4	133.2	129.4	136.8
General index	102.4	95.5	108.7	106.9	115.8

The general index progressed from 105.5 in January to a maximum of 114.7 in March, falling to a minimum of 88.8 in August, rising again to 108.4 in September and to 115.9 in October.

FOREIGN TRADE. — Trade with the colonies is now separately stated.

(In million Lire)						
	Imports from		Exports to		Imports (–) Exports (+)	
	Colonies	Foreign Countries	Colonies	Foreign Countries	Colonies	Foreign Countries
1929	22,313		14,999		– 7,314	
1933	78	7,354	212	5,579	+ 134	– 1,575
1934	93	7,582	259	4,965	+ 166	– 2,617
1935	117	7,673	750	4,488	+ 633	– 3,185
1936	157	5,882	1,718	3,824	+ 1,561	– 2,058
1937	350	13,592	2,580	7,853	+ 2,230	– 5,739
1938	206	10,918	2,419	7,960	+ 2,213	– 2,958
1937*	207	8,027	1,524	4,638	+ 1,317	– 3,389
1938*	154	–	1,429	4,701	+ 1,307	– 1,747

* Converted into lire at the legal rate before the realignment of October 6, 1936.

The adverse balance of trade was drastically reduced, almost exclusively by reducing imports. Reductions were possible partly through good wheat and corn harvests, partly because stocks, depleted during the African campaign, were replenished in 1937; and, finally, through better terms of trade with foreign countries. Foreign trade is now at a lower level than in 1933. The direction of trade has also changed. (See table at p. 764).

Germany is the only country which appears to be increasing her trade with Italy.

TRAFFIC. — Internal traffic is growing. The State Railways have fared as follows (from July 1st to June 30th). (See table at p. 764).

FROM 1936 TO THE SECOND POST-WAR, 1936-1946

	(In million Lire)					
	Imports			Exports		
	1933	1937	1938	1933	1937	1938
United Kingdom	727	561	703	689	639	580
France	413	491	248	459	438	322
Switzerland	271	412	373	483	507	489
Germany	1,143	2,589	2,981	729	1,503	1,983
Austria	175	631	—	131	289	—
United States	1,115	1,539	1,316	529	783	774
Argentina	248	1,054	271	381	402	404

	Tons Carried '000 omitted	Traffic Revenue Million Lire		
		Passengers	Goods	Total
1933-34	40,214	1,126	1,593	2,719
1934-35	42,796	1,101	1,514	2,615
1935-36	47,089	1,188	1,968	3,156
1936-37	51,481	1,284	2,262	3,546
1937-38	57,394	1,437	2,566	4,003

PRICES. — COST OF LIVING AND WAGES. — Changes in the level of wholesale prices and in the cost of living (1928=100) have been as follows:

	1929	1935	1937	1938 (Dec.)
Wholesale:				
<i>General index</i>	95.4	68.2	89.1	96.4
Raw materials	95.3	65.6	89.5	91.7
Semi-finished goods	97.5	74.9	101.3	111.7
Finished products	94.4	68.3	84.0	96.1
Retail:				
Home produced	105.5	67.3	86.3	95.4
Imported	105.6	73.0	102.7	106.6
Exported	108.1	55.8	81.7	84.8
<i>Cost of Living</i>	101.1	77.5	91.7	99.12*

* Yearly average.

Prices now appear to have come back to about the 1929 level. Devaluation was only one among many influences which helped to reverse the trend of prices. Export prices, which suffered most during the crisis, are also slower to recover ground, in comparison with 1929. The cost of living is almost back to the 1929 level; in December, 1938, the index number was 99.97. The wages index has gone from 84.3 in 1935 to 100.5 in 1937; but there are no later data. In October, 1938, the number of persons in employment was 43 per cent. higher than the 1934 figure.

MONEY MARKET AND STOCK EXCHANGE. — The year showed a featureless money market. The official rate was unchanged at 4.50 per cent.; pri-

vate rates for commercial paper between 5 and 5.50; and monthly settlements were carried over at 4 to 5.75 per cent. On the Stock Exchange, share-values, which had closed in 1937 at 48.8 (1924=100) after a bottom at the end of 1935 of 35.3, rose to 50 at the end of February, 1938, and then hovered around 48, closing finally at 46-47. Saving and current account deposits increased from 74,627 million lire at the end of 1936 to 79,575 at the end of 1937 and to 82,408 millions at the end of September, 1938. The number and capitalisation of Italian joint-stock companies changed from 20,018 companies at the end of 1937 to 20,660 at the end of November, 1938, and their capital progressed from 47,695 to 52,807 million lire. The increase was mostly in paper transactions from reserve to capital account. Failures are fast diminishing:

	Ordinary Failures		Small Failures	
	Number	Liabilities	Number	Liabilities
	(Thousand Lire)		(Thousand Lire)	
1933	9,954	1,380	11,359	118
1934	8,211	1,051	10,258	106
1935	6,864	739	10,578	109
1936	5,287	501	8,554	82
1937	3,209	251	6,153	56
1938	2,846	236	5,171	46

PUBLIC FINANCE. — No figures were published regarding the accounts after the Budget speech of May 18, 1938. The total deficit (ordinary and extraordinary expenditure included) was 2,030 million lire for the fiscal year ending June 30, 1935; 12,685 millions for 1935-36; 16,230 millions for 1936-37. For 1937-38 the deficit was preliminarily estimated at 12,173 millions, but owing to a high yield from the new tax on joint-stock companies, the Minister of Finance hoped that the deficit would be kept under the 12,000 millions level. For the current fiscal year a surplus of 37 millions, and for the year 1939-40 a deficit of 4,755 millions, were originally estimated; but these figures are largely a guess, since they do not include unforeseen extraordinary expenditure. Following the two 5 and 10 per cent. extraordinary taxes on land and real estate capital and on joint-stock companies, a third extraordinary tax of 7½ per cent. was applied to the capital of private companies and concerns.

287.

FALL IN ITALIAN SHARES

From our Turin Correspondent

It was characteristic of business last year in Italy, as elsewhere, that the Stock Exchange was remarkably quiet. There was a marked and general fall in share values, and the following table of index numbers shows how drastically the prices of certain selected groups have been reduced since 1924:

	(Basis 100 = 1924)				
	1935	1936	1937	1938 Feb.	1938 Nov.
Transport by sea	6.2	11.9	15.3	15.7	12.6
Silk	13.7	20.3	23.2	23.4	17.3
Miscellaneous	12.9	16.1	18.5	18.3	17.9
Land & real estate	18.8	23.0	23.5	23.6	22.6
Cotton	16.5	22.6	29.8	30.6	25.8
Insurance	32.7	39.8	39.6	31.7	28.5

In the case of this group some shares are at a level which is actually only 30 per cent. of their 1924 value; and to explain these losses, it must be remembered that in this group are included old companies which, for special reasons, have suffered during the crisis enormous capital losses, and whose values will possibly never recover. Shipping, silk, land insurance companies, moreover, live to-day in a very different world from that of 1924; and shareholders, writing off past dead losses, must be ready to consider, in one way or another, present values as normal.

These, however, are extreme examples of the fall that has taken place. Examination reveals other classes of shares whose value has not fallen so steeply. The next group includes industries whose share-values, at 30-50 per cent. of the 1924 level, remain below the general average:

	1935	1936	1937	1938 Feb.	1938 Nov.
Rayon	26.5	34.5	40.6	44.7	38.0
Engineering	26.6	36.8	38.6	39.9	40.0
Chemical	29.0	35.9	38.5	41.2	40.9
Foodstuffs	36.7	40.0	43.4	45.0	45.0
General Index	35.3	45.3	48.9	50.0	48.8

287. April 8, 1939, p. 86. The article, unsigned, was published in the section: "The World Overseas". Its attribution to Luigi Einaudi is certain according to Graham Hutton.

This group is also very heterogeneous, and runs from rayon, which is a new industry, to the provision of foodstuffs, and to engineering and chemical concerns, which should profit from the self-sufficiency programme.

The general index has fallen to a bare half of the base-index for 1924. True, 1924 was perhaps the most prosperous stock exchange year in the present century; but the fact that shares dealt in on Italian bourses, notwithstanding two legal lowerings of the gold content of the currency unit, average only half the value of 14 years ago, is liable to be interpreted as an indication of the diminished net productivity of joint-stock companies.

It is important, on the other hand, to notice the important industries whose shares have by no means fallen so much in value as the general index. The following group includes industries whose share values, though still below the 1924 level, are above the prevailing general level:

	1935	1936	1937	1938 Feb.	1938 Nov.
Iron and steel	41.8	57.1	56.8	61.5	58.4
Motor cars	46.3	60.3	59.8	56.8	59.3
Linen and hemp	44.7	59.4	75.3	71.6	66.5
Wool	60.3	64.9	79.0	83.8	68.5
Land transport	60.0	77.2	73.3	77.5	72.5
Banking	62.0	77.7	82.1	83.3	73.8
Electricity	59.2	76.2	81.4	84.7	86.3
Mines	70.1	87.9	101.3	107.3	99.7

Finally, the picture is incomplete without reference to the small but significant group of industries, the value of whose shares has increased in some proportion to the reduction of the gold content of the lira:

	1935	1936	1937	1938 Feb.	1938 Nov.
Water	106.7	119.2	120.7	122.5	117.3
Financial	62.8	87.3	107.7	118.0	117.5
Financial (ex Railways)	84.3	108.0	122.9	127.7	120.5
Sugar	142.5	173.0	169.0	170.4	168.7

No general explanation can be given of the relatively high level reached by these groups. Water companies enjoy a monopoly, and sugar is highly protected; but as other groups have the same advantages, the real foundation of their improvement seems to be their conservative, exceptionally prudent, management. Financial companies (and ex-railway companies must be classed under the same head) have been able to shift their investments and pick the best securities in the market. They offer to the investing public, therefore, a type of investment which may be compared to that offered in Great Britain by trust companies, and their success points to a more optimistic conclusion than would follow from a cursory examination

of the figures quoted above. Capitalists are not bound to remain faithful to investments selected in 1924; if, cutting old losses, they had begun anew in 1935 they would not have fared so badly. True, the general index rose only from 35.3 to 48.8, and is well below past levels; but after a fall of 64.7 per cent. between 1924 and 1935, a recovery of 38.2 per cent. between 1935 and 1938 is welcome.

288.

AUTARKY AND TRADE IN ITALY

From our Turin Correspondent

There is no definite evidence that the consequence of the policy of autarky has been inflation. Figures of banknotes and cheques in circulation give little suggestion that an inflationary movement is in progress.

	(Millions of Lire) ends of years			
	1936	1937	1938	March, 1939
Bank of Italy Notes	16,525.1	17,468.1	18,955.4	17,967.2
B. of I. cheques in circulation	725.7	749.5	905.2	714.6
Other banks' cheques in circulation	739.5	900.8	955.3	852.4*

* February.

The total of notes and cheques rose from 18,000 million lire at the end of 1936 to 19.1 millions at the end of 1937 and 20.8 millions at the end of 1938. Whether this increase is an index of inflation is not easy to say. But the extension of the territory in which notes are now, at least partially, circulating and the increase that has taken place in physical economic production and activity go far to explain the increase, without any reference to inflation.

How, then, is the autarky plan, which is mainly a plan for war industries, financed? According to discussions in the Credit Corporation and in the Autarky Committee last September and since, the means have been found in the utilisation of effective savings. It is very probable that to date

288. June 24, 1939, pp. 712-713. The article, unsigned, was published in the section: "The World Overseas". Its attribution to Luigi Einaudi is certain because the original manuscript, without date but entitled "Italy. Autarky and compensatory barter", is kept in the Einaudi archives.

this is so. The movement of current and deposit accounts in the banks and in post office and other savings banks has been upwards, as the following figures show:

(In thousands of Million Lire)			
End of	Time Deposits (including Post Office Banks)	Current Accounts	Total
1936	34.5	22.4	56.9
1937	37.9	23.4	61.3
1938	40.8	25.2	66.0
1939 (January)	41.2	25.3	66.5

The figure of 66,500 million lire at the end of January, 1939, represents mainly deposits originating from a true act of saving by the customers of the banks. And the increase of 4,700 millions in this total in 1938 may be said to be the sum that savers did not invest directly in agricultural land improvements, house building, industrial plant and equipment, or State and other securities. But, and this is the point, it must be emphasised that this sum, that is, the 4,700 millions increase, which is frequently held in common parlance to be the total amount of savings, is only the residual and minor item in savings. It would be very rash to evaluate the total amount, but at a guess a figure of 18,000-20,000 million lire may not be very wide of the mark; and the recent deficits on the State Budget (16,230 millions in 1936-37 and 11,174 millions in 1937-38) were met mainly by these savings. Other sources were a moderate increase in the note circulation (extraordinary advances to the Treasury were 2,000 million lire), and the proceeds of the revaluation of the lira, of the gold gifts to the Exchequer and of the sales of foreign securities commandeered by the State. If, in the current and future Budgets, extraordinary expenditure (that is, expenditure not financed by taxation) could be kept within the 10,000 millions limit, its financing out of true saving appears to be possible without giving rise to inflation.

Thus, autarky is not necessarily connected with inflation; but it is logically the cause of a gradual and radical change in external trade. Newspapers are now full of comments about the scarcity of coffee. Queues are to be seen in the cities; dealers are selling an ounce of the precious drug to old customers at stated days and hours; the Secretary of the Fascist Party has ordered members not to consume any more; a big drive has begun in the Press to the same end. True, the sum spent by Italy in purchasing foreign coffee is not very important; 130 million lire in 1938 and 31 millions in the first quarter of 1939. This is a small part only of the total sum of 1,000 millions yearly spent by Italian consumers in buying crude coffee; and the rest

went mainly to the Exchequer in the form of taxation. Indeed, the biggest loser in the campaign for the reduction of the consumption of coffee will be the Exchequer, which will also lose some part of the tax on sugar, which is complementary to coffee.

As an article in the May 13th issue of *La Stampa* explains, the point is one of principle. Brazil, which is the biggest seller of coffee to Italy, refuses to buy enough Italian goods to balance her trading accounts; in the last 18 years and three months Brazil has sold to Italy goods to the value of 2,077 million lire more than Brazil has purchased from Italy; as Brazil will not purchase Italian goods, Italy will not buy Brazilian coffee.

The regulation of foreign trade, according to the Minister of Foreign Trade in a speech on May 12th, has gone through three stages. First there was the *bolletta* system. Only those importers who introduced foreign goods in a certain quarter of 1934 and possessed a certificate (*bolletta*) of import were authorised to import a specified quota of their former imports. This was tantamount to fixing trade at a set level, and it discriminated in favour of particular individuals. Therefore the *bolletta* system was replaced by the *licence* system. Import licences were granted to those industrialists and traders who had a priority right because they were better equipped, from an economic and technical point of view, or because their industry was important from the public, military or other point of view. This system, too, did not work satisfactorily for two reasons: first, foreign trade continued to be conducted on an individual basis and Italy was unable to obtain compensatory bargains with foreign countries as a whole; secondly, the licence system gave rise to numerous "middlemen" or "go betweens", who claimed payment for their good offices in securing licences. The Government decided to stamp the middleman out, and a beginning was made towards the institution of yet a third system. Italy will henceforward adopt a corporative solution of the problem. Goods will be more and more imported exclusively by public bodies, on which the consuming industries, the Corporation or Confederation concerned and the State will be represented. Imports will be gradually transferred from individual traders to privileged companies and bodies, which will distribute the goods imported according to some priority table.

Meanwhile the Minister observed that the regulation by authority of foreign trade has already resulted in 1938 in total exports covering 73 per cent. of imports against 60 per cent. on the average in the years 1934-37. Countries with which Italy is bound by clearing or other compensation agreements supplied 66 per cent. of total goods imported into Italy and purchased 71 per cent. of goods exported by Italy. Import prices, it is

true, increased in 1938 by 88 per cent. over 1934, while export prices increased by only 46 per cent.; and the terms of trade may seem to have moved against Italy. But the Minister observes that the 1934 terms of trade, owing to a too high external value of the lira, badly handicapped exports; the alignment or devaluation of the lira has restored the balance between external and internal purchasing power of the lira.

June 5th.

289.

BUSINESS OPINION IN ITALY

From our Turin Correspondent

Perhaps one of the best indices of business opinion about the trend of future political and military developments in our country is the current prices of variable dividend securities on the Stock Exchanges.

Most useful from this point of view is the index of 30 active securities quoted on the Milan Stock Exchange, which is daily published by the *Corriere della Sera*. These 30 securities can be deemed representative, as they include about a fifth of the capital of all joint-stock companies and more than a half of the capital of companies whose shares are quoted on the Italian Stock Exchanges. We can begin our analysis by taking into account the indices of prolongation prices (*prezzi di compenso*) which are fixed monthly by the Stock Exchange authority and which are the basis for carrying over bargains (*riporti*) from end to end of successive months. (See table at p. 772).

The upward trend is indeed not recent. The best part of the total upswing dates from the year from July, 1938, to July, 1939. But the upward trend was not then uniform. Textiles were a notable exception. Industry was badly hit by decreased consumption and the difficulties of purchasing raw materials, mixing inferior substitutes with genuine cotton, wool, hemp and jute, and devoting good raw material such as hemp to the manufacture

289. November 25, 1939, pp. 286-287. The article, unsigned, was published in the section: "The World Overseas". Its attribution to Luigi Einaudi is certain because the original manuscript, without date and title, is kept in the Einaudi archives.

	July, 1938	July, 1939	Aug., 1939	Sept., 1939	Total Increase or Decrease from July, 1938, to Sept., 1939
					<i>Per cent.</i>
Financial	645	703	712	787	22
Textiles	510	500	501	551	8
Mines, iron and steel	312	265	268	305	- 2
Engineering and mo- tor-cars	244	296	295	310	23
Electrical	284	286	287	310	9
Food	425	494	496	542	27
Land and real estate	140	150	149	161	15
Miscellaneous	538	702	711	806	49

of inferior goods to which jute, for instance, was better adapted. The mining, iron and steel industry was also, for analogous reasons, passing through a transition phase: scrap iron and steel was difficult to obtain, and the grandiose autarkical programme of obtaining steel directly from iron ore, instead of mainly from scrap, as customary in our country, is not yet complete. It will succeed in putting on the market iron and steel at lower cost than at present, and probably at prices not higher – at a certain level of the dollar and pound sterling exchanges – than the world level. But the programme is to be completed only in 1942. The electrical industry, always sensitive, has made great progress in selling surplus power, but prices were not always remunerative.

The picture changes after the end of July: instead of erratic increases along with decreases (from -16 to +30 per cent.), the upward trend becomes general and more uniform. The spread of percentage increases is between a minimum of 7 and a maximum of 19 per cent. Business interests tend to believe in increased activity with higher profits. Most of the increase has taken place since August. Apart from the construction put on the official declaration of non-intervention made by the Cabinet on August 31st and on the successive speeches by Signor Mussolini, it seems evident that *general* optimism on the future of industrial and financial business could not be justified if the Stock Exchanges had believed in war. Electrical plant and real estate are liable to bombardment from air and sea; food concerns would very likely be confronted by decreased consumption and price regulation. It therefore seems certain that business and financial circles believe in the continuation, more or less for a long time, of the present non-intervention policy.

An examination of the daily fluctuation of variable dividend security prices bears out this conclusion:

	August		September				October	
	4	25	1	5	22	27	2	9
Financial	716	699	720	770	808	786	800	807
Textiles	508	491	513	541	565	549	589	597
Mines, iron and steel .	269	265	275	296	313	305	317	324
Engineering and mo-								
tor-cars	298	288	294	314	319	309	315	328
Electrical	288	282	292	308	317	309	315	316
Food	505	475	490	517	552	539	559	554
Land and real estate .	150	149	153	165	164	161	163	164
Miscellaneous	729	717	748	830	824	804	807	810

The uncertainty prevalent in the last week of August, as well as the usual end-of-month sales on settlement days, explains the weakness on August 25th. As soon, however, as non-intervention was declared on the afternoon of August 31st, quotations rose. The rise was continuous and general until the 22nd. After a lull on settlement day (August 27th), the lost ground was soon recovered. The announcement of new taxes on Saturday evening, September 30th, left the markets unmoved. On Monday, October 2nd, markets were again buoyant and optimism has since persisted.

Nor were the new taxes so light a burden as would easily be passed over. The new capital tax is an addition to the successive extraordinary capital taxes, which, in past years, have taken a large slice, including from 5 to 10 per cent. of the capital value of land, houses, and the net assets of joint-stock companies, private companies and individual concerns.

The new tax will be a permanent annual tax, and will amount to a 0.50 per cent. of the net estate of all individual taxpayers, joint-stock and private companies and other economic bodies. Exemption is granted only to State-issued securities, furniture and household goods. The burden of the tax will be 5 per cent. on income yielded by assets capitalised on a 10 per cent. basis; 10 per cent. on income if the capitalisation basis is 5 per cent.; and 16.66 per cent. on income if the capitalisation basis is 3 per cent. Adding these percentages to existing State and local income taxes, the total taxation on income is certainly not lower than the present British income tax rate of 7s. 6d. in the pound.

The second tax is not wholly new, for it takes the place of the old sales tax (*tassa scambio*). This sales tax was a levy on all sales between producers, between producers and middlemen, and between middlemen, at rates from 0.50 to 12 per cent. Many exemptions were granted. The new tax will be called a tax on receipts (*tassa sull'entrata*), viz. not on net income, but on all monetary items of gross receipts. The rate will be a flat 2 per cent.

and will hit all receipts. Those who already pay the sales tax will now pay the new tax instead, and to their ranks will be added all agriculturists, who will pay on the cash receipts of their sales of wheat, oil, wine, cattle, fruits, vegetables; all house owners, who will pay on rents received; and professional men, who will pay on their fees. Sales from producers and middlemen to the final consumers, hitherto exempted, will now be taxed. A few exemptions are maintained: these include interest and dividends paid by the State and other bodies, bread, daily newspapers (books and other periodical publications will be taxed), salaries and wages, and receipts from the sale of exported goods. The tax will be paid, as with the old sales tax, every time goods change hands or services are rendered.

Although the burden of new taxes cannot be contemplated without some misgiving by interested taxpayers, the Stock Exchanges seemed indifferent. Even Real Estate securities, for which both taxes are a new burden, continued their progress.

Is this optimism justified? May not the Treasury be alarmed by a trend, which can be construed as a drift from fixed interest securities in favour of tangible non-monetary investments, and come to the rescue with Stock Exchange restrictions? Time alone can answer these questions, put with daily anxiety by investors to their brokers. My intention was simply to guess, through the trend of Stock Exchange quotation, what is the most probable general opinion of business circles on the future of Italian policy.

November 11th.

290.

OPTIMISM IN ITALY

From our Turin Correspondent

The rise in share prices has continued since October. The changes, according to the index of 30 active securities quoted on the Milan Stock Exchange, published daily by the *Sera* (not *Corriere della Sera* as was misprinted in my last letter), are as follows:

290. February 10, 1940, p. 251. The article, unsigned, was published in the section: "The World Overseas". Its attribution to Luigi Einaudi is certain because: a) of the wording "From our Turin Correspondent"; b) the author refers to the article of November 25, 1939 as his "last letter".

	July, 1938	Oct. 9, 1939	Dec. 1, 1939
Financial	645	807	866
Textiles	510	597	713
Mines, iron and steel	312	324	389
Engineering and motor-cars	244	328	400
Electrical	284	316	336
Food	425	554	601
Land and real estate	140	164	174
Miscellaneous	538	810	828

A lively debate has taken place in the daily and financial Press on the causes of the rise. Those who saw in the rise a symptom of a flight from the lira have asked for some restriction or taxation on speculative dealings. Others, perhaps representative of a more general opinion, have pointed to the increasing profitableness of industry and to the more favourable balance of international payments as guarantees for the stability of the lira and for the genuineness of the Bourse trend.

What is the opinion of the Treasury and of the *Istituto per la Ricostruzione Industriale*, whose influence in Italy is now – like that of similar bodies in foreign countries – of the utmost importance in the fixing of the level and trend of Stock Exchange securities? That official circles do not view the optimistic trend adversely may be surmised from the big issue of 900 million lire of shares of Finsider, which will bring the issued capital of this huge concern from 900 to 1,800 million lire (about £ 23 millions at the present official rate of exchange), and will put it ahead of all Italian joint-stock companies.

The Finsider (*Società finanziaria siderurgica*) is a financial concern which controls four big iron and steel, engineering and electrical companies: *Ilva*; *Terni*; *Dalmine*; *Siac* (*Cornigliano*); and two mining companies, *Ferromin* and *Rimifer*. On December 31, 1938, the group possessed consolidated assets of 3,140 million lire, of which 1,752 millions were invested in industrial fixed plants, 601 millions were stock in trade and new works, 74 millions cash, 567 millions credits, 112 millions securities, and 34 millions miscellaneous. Liabilities (sums due to banks, trade creditors, mortgagors, etc.) amounted to 1,088 millions; capital was 1,521 millions; and reserves 531 millions.

MASS PRODUCED STEEL. – The 1937 production of the group and the limit which it is estimated will be reached when the 900 million lire new capital will be fully utilised are as follows: Minerals, 710,000 and 1,200,000 tons, respectively; pig iron, 570,000 and 1,560,000 tons, respec-

tively; steel 915,000 and 1,700,000 tons, respectively; steel tubes, 81,000 and 185,000 tons, respectively; cement, 215,000 and 250,000 tons, respectively; lignite, 150,000 and 500,000 tons, respectively; and electrical energy, 1,225,000,000 and 2,100,000,000 kwh., respectively. In minerals, pig iron, steel and steel tubes will eventually supply about three-quarters of total Italian production.

Perhaps the most interesting part of the programme of this concern is its change in the method of steel production. Instead of utilising mostly, as in the past, broken iron and scraps, the two Finsider controlled *Ilva* and *Siac* companies now produce 310,000 tons of steel, and will produce 1,250,000 tons, directly from minerals. There are two reasons for this: to free Italy from the compulsion to import broken iron and scraps, mainly from France and the United States, imports which may become impossible and are now for several reasons difficult; and to reduce the cost of production to a competitive international level. To this end mass production is necessary. Therefore an Act of January 19, 1939, reserved to the *Ilva* and *Siac* companies, in addition to their standard production in the base period (July 1, 1936, to June 30, 1937), the total future national increase in production up to a maximum of 2,500,000 tons.

The executives of the Finsider group are sanguine about the scheme. They say that, as 15 per cent. of the present production (and probably more than 30 per cent. in 1940) of *Dalmine* tubes is sold at competitive prices in foreign markets, without any dumping or subsidy from internal consumers, the same will happen to the steel production. The Cornigliano (*Siac*) and Piombino-Bagnoli (*Ilva*) industrial plants are of ultra-modern type; and, owing to their situation on the sea coast, the freight cost of minerals and coal should be at a minimum. The Finsider is controlled by the I.R.I., and this is certainly one of the foremost State ventures in the world. Carefully planned on autarkic principles, it is also a concern the sponsors of which claim to be on a strictly competitive basis.

January 17th.

291.

RATIONING IN ITALY

From our Turin Correspondent

The first experiment in rationing in Italy is being now made with coffee and sugar. The import and sale of coffee were suspended in October; and consumers fared as best they could on substitutes. Now coffee is to be on the market again from February 1st; but rationed at the rate of 0.6 kilograms (about 1 $\frac{1}{3}$ pounds) a year, already prepared, corresponding to 0.48 kilogram crude. Sugar will also be rationed at the rate of 6 kilograms (about 13 $\frac{1}{3}$ pounds) a year. The rationing of coffee is introduced with the object of reducing imports, which amounted in 1938 to 36,000 tons. If we add to the family consumption of 0.6 kilogram (0.48 kilogram crude) per head, the large consumption in public coffee-rooms, restaurants, hotels, etc., we easily reach the normal free previous consumption of 36,000 tons a year. The hope of reducing imports is therefore wholly based on the assumption that the individual ration, being calculated on the previous average consumption, will not be utilised by those very numerous people who consumed less coffee than the average. This is quite likely, as the consumption was already being progressively reduced, and in 1930 was 91.7 per cent., in 1933 75 per cent., and in 1938 66.7 per cent. of the 1922 level. The sugar ration of 6 kg. per head yearly was similarly fixed on the basis of past average consumption, which was 8.1 kg. in 1938. Taking account of indirect consumption in confectionery and other manufactured foods, the total consumption, under rationing, would easily reach normal levels, if all consumers utilised their allowance. Here the aim is not to reduce foreign imports, as sugar is wholly home-produced, but to transform a proportion of it into industrial alcohol. How far these results will be obtained depends very much on the possibility of keeping down the consumption of those who did not previously reach the average. Experience in the last war seems to point to an extension of consumption of rationed goods among the mass of the people, but this may have been due to the uncontrolled rise

291. February 17, 1940, p. 292. The article, unsigned, was published in the section: "The World Overseas". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Rationing of coffee and sugar" and dated "Turin, January 31, 1940", is kept in the Einaudi archives.

of wages, and this time there are no signs of a widespread rise in working-class earnings.

January 31st

292.

ITALY

AGRICULTURE AND INDUSTRY. – Prolonged rains at unfortunate times damaged the maize crop and the vintage, but the wheat and hay crops were good, so that the number of cattle could be increased and meat and milk production were profitable. Wheat imports for the first seven months of the year amounted to 347,504 tons, against 177,974 tons in the corresponding months of 1938. As the home production in 1938 was 8.2 million tons, against 8.1 in 1937, the increased imports were probably made as a safeguard against an estimated big deficiency in the 1939 crop, which, however, did not materialise.

The general index of industrial production, which stood at 113.0 in December, 1938 (1928=100), continued to rise in 1938, and reached 123.3 level in June (106.7 in June, 1938). All groups took part in the rise.

Luxury industries and building were badly hit by the war, but the textile industries received large orders from foreign countries, and they and the iron and steel and engineering industries are working up to the limit set by the supply of raw materials.

	(In million Lire)					
	Imports from		Exports to		Balance (Imports – exports +)	
	Colonies	Foreign Countries	Colonies	Foreign Countries	Colonies	Foreign Countries
1935	117	7,673	750	4,488	+ 633	– 3,185
1936	– 157	5,882	1,718	3,824	+ 1,561	– 2,055
1937	350	13,592	2,580	7,853	+ 2,230	– 5,738
1938	209	11,064	2,448	8,009	+ 2,239	– 3,059
7 months, 1938	133	6,849	1,410	4,480	+ 1,277	– 2,369
7 months, 1939	130	5,914	1,224	4,734	+ 1,094	– 1,180

The excess of imports over exports was fast dwindling before the war.

292. February 17, 1940, p. 15. The article, unsigned, was published in the supplement: *The Economist. Commercial history & Review of 1939*. Its attribution to Luigi Einaudi is certain because the original manuscript, without date but entitled "Commercial History 1939. Italy", is kept in the Einaudi archives.

The reduction was due more to drastic curtailment of imports than to the moderate expansion of exports. The general impression is that the war has not reversed the trend and that several industries (textiles, engineering) are increasing their exports, with no small profit. The bulk of the traffic appears to be seaborne trade to the west.

TRANSPORT. — Railway goods traffic increased from 26,482,980 tons in the first seven months of 1938 to 27,793,271 tons in the corresponding period of 1939. Passengers decreased during the same period from 58.3 millions in 1938 to 56.9 millions in 1939. Since the outbreak of war there has probably been a further reduction in passenger and goods traffic, except for goods in transit to and from Switzerland and goods bound for France and the Balkans. Maritime transport profited most from the war. From September 6th to the end of the year Italian liners enjoyed a virtual monopoly of the transport of passengers on the Atlantic.

MONEY MARKET AND STOCK EXCHANGE. — Money was easy throughout the year. Rates for commercial paper were from 5 to 5.50 until the end of August, and after a short-lived tightening in September eased to 5 per cent. and under. Carry-over rates, which on the Bourse remained at 4 to 4.75 in the first half-year, eased in the summer months to 3 to 4 per cent. and at the end of the year oscillated between 3.50 and 4.50 for good securities. Under the influence of easy money and the good prospects for industrial profits, quotations were buoyant on the Stock Exchanges.

PUBLIC FINANCE. — Expenditure is increasing by leaps and bounds and revenue is having difficulty in keeping pace with it:

(In million Lire)			
	Revenue	Expenditure	Deficit or Surplus
1934-35	18,817	20,847	- 2,030
1935-36	20,371	33,057	- 12,686
1936-37	24,702	40,932	- 16,230
1937-38	27,468	38,642	- 11,174
1938-39*	25,072	25,035	+ 37
1939-40*	24,561	29,316	- 4,755
1940-41*	29,003	34,895	- 5,893

* Estimated.

New taxation was therefore inevitable. After the 5, 10 and 7.50 per cent. compulsory loans and extraordinary capital taxes on land and real estate, and capital of joint-stock companies, private companies and individual industrialists and traders which were enacted from 1936 to 1938, the old sales tax was now transformed into a new 2 per cent. tax on gross

income of every sort (from sales of goods and of services), and a new 0.5 per cent. annual tax on all capital was instituted.

293.

ITALY'S FINANCES

From our Turin Correspondent

The report of the Governor of the Bank of Italy, Signor Azzolini, to the annual meeting contained the following figures for December 31st, except this year:

	In millions of Lire			
	1937	1938	1939	Mar. 20, 1940
Circulation	17,468	18,955	24,432	22,644
Deposits	1,465	1,721	2,486	1,917
	18,933	20,676	26,918	24,561
Gold	3,996	3,674	2,738	2,602
Foreign exchange	32	152	393	
	4,028	3,826	3,131	
<i>Ratio of cover to sight liabilities</i>	21.3%	18.5%	11.6%	
Discounts	2,544	3,704	4,833	
Advances	4,508	3,686	2,992	
	7,052	7,390	7,825	
Ways and means advances:				
Short dated	1,000	1,000	1,000	
Extraordinary	—	2,000	8,000	
	8,052	10,390	16,825	

The gold reserve has steadily fallen and there has been an increase in sight liabilities. If it is assumed that discounts and advances correspond to the demand for money on the private market, while ways and means advances vary according to the needs of the public Exchequer, the major part of the increase in the note circulation can be explained by the exigencies of the State.

293. June 15, 1940, p. 1043. The article, unsigned, was published in the section: "The World Overseas". Its attribution to Luigi Einaudi is probable because of the wording "From our Turin Correspondent".

INCREASED STATE REQUIREMENTS. — This assumption requires, however, some qualification, since discounts and advances also reflect the increasing intervention of the State in economic activity. For example, the decrease in advances is entirely due to decreases of 330.8 and 381.9 million lire in the advances guaranteed by the Redeemable Compulsory Immobiliare, 1936, Loan and the 5 per cent. Rentes, respectively, both of which advances were made to facilitate the issue of the loans. The increase of 1,129 millions in discounts is mainly due to the financing of the purchase and processing of wheat by public State bodies, to purchases of cocoons, wool, hemp, rice and other materials, and to the discount of short-dated Exchequer bills.

The new State economic activities are in fact the best source of profit to the Bank of Italy. Trade discounts proper seem to be diminishing, in accordance with the policy of making the Bank of Italy a true central bank, and were only 149.5 millions at the end of 1939. Except in September, however, the banks, being in funds, did not offer their commercial paper for rediscount, and the Bank of Italy's best customers are now the public bodies which finance armament and other essential industries and the purchase of agricultural products.

The requirements of the State are, however, the principal cause of the increase in circulation. Advances to the Treasury increased by 2,000 million lire in 1938 and by 6,000 millions in 1939. Ordinary expenditure in 1938-39 was 33,353 million lire, and extraordinary revenue 6,500 million lire, while revenue amounted to 27,576 million lire, leaving a deficit of 12,278 millions against 11,174 millions in the preceding year. Assuming that the advances by the bank to the Government were divided evenly between the half-years concerned, the Budget deficit of 1938-39 was covered as to $32\frac{1}{2}$ per cent. by the issue of bank notes, compared with a corresponding percentage of just under 9 the year before.

COST OF LIVING. — Signor Azzolini stoutly denies that the increase in circulation is inflationary, alleging that it was preceded and caused by the rise in prices. Prices have undoubtedly increased: the 1939 index number of wholesale prices at 99.4 (1928=100) was 4.3 per cent. higher than that of 1938, and from August, 1939, to February, 1940, the increase was 14 per cent. The cost of living increased by over 17 per cent. between March, 1939, and March, 1940. Average wages during the first ten months of 1939 were 10 per cent. higher than in the corresponding period of 1938. There was a general upward revision of wages and salaries

amounting to 6-10 per cent. in March, 1939, and another of 10-15 per cent. in March, 1940. When allowance is made for the increase in employment, Signor Azzolini maintains that working class real income has remained stable.

June 1st.

294.

ITALY'S FINANCES

From a Correspondent in Rome

The condition of Italy's finances can best be described if the Budget report made by the Secretary to the Treasury, Signor Soleri, on September 29, 1944, is brought up to a later date, December 10, and analysed.

The first section includes ordinary revenue and expenditure. The whole of the revenue is included here, but only that part of the expenditure which can properly be called permanent and excludes those items that result from the state of war. Total ordinary expenditure is thus put at 33,658.2 million lire and total revenue at 12,938.3 million lire, leaving a deficit of 20,719.9 million. This part of the total deficit should not cause concern. Revenue is low because the best part of the revenue-producing territory, the north of Italy, is still in the hands of the enemy. When Italy is wholly liberated it should not be difficult to return, in a couple of years or so, to a Budget balanced at the level of about 40 milliard lire. A few items, for instance defence, will be reduced; others will expand. Social welfare and education will be greatly increased. Eventually the state Budget will rise to 60 milliard and perhaps 80 milliard lire. Whatever the future rate of exchange, there is a big difference between a present-day Budget of 40 milliard lire and the pre-1914 Budget of 2.5 milliard. At the present official rate of exchange of 400 lire to the pound or 100 lire to the dollar, which means 170 1945 lire to one 1914 dollar, the real burden of the 1914 2.5 milliards cannot be valued at less than 80 milliard lire of to-day – or

294. March 3, 1945, p. 282. The article, unsigned, was published in the section: "The World Overseas". Its attribution to Luigi Einaudi is certain because a typed manuscript, entitled "Italian finances" and dated "Rome, February 10th, 1945", with handwritten corrections by the author, is kept in the Einaudi archives.

even more, since if the lira was undervalued when the Allies first landed in Sicily, it is now overvalued. Thanks to the devaluation of the lira and the virtual nullification of the debt charges, it is now easier than in 1914 to make both ends meet in the ordinary Budget.

The real problem concerns the extraordinary war and transition-to-peace Budget. Here there is no revenue, but only expenditure. Nevertheless, a distinction can be made between non-recurrent and permanent extraordinary expenditure.

It is fairly certain that the non-recurrent items will not reappear in the future. For instance, the State Railways' deficit is estimated at 6,661.6 million lire for the fiscal year 1944-45, with a probable further increase of 4,000 million lire in the same year. This deficit will surely disappear when the railways are rehabilitated and civil traffic substituted for the almost exclusively military traffic of the Allies. The war expenditure of the army, navy and air force is estimated at 32,653 million lire, and this item will likewise disappear. The repatriation of Italian prisoners is estimated to cost 30,000 million lire. The total of such non-recurrent expenditure for the current year is estimated at the grand total of 95,412.6 million. It is probable that the whole of this big sum will not be spent before June 30, 1945. After the war, war expenditure will be replaced by reconstruction expenditure, for which only 4,658.4 millions are budgeted in the current fiscal year. Even if a five-year or, better, ten-year reconstruction plan should require a state expenditure of 50 milliard lire yearly, the burden should not exceed the internal savings plus potential imports of foreign capital.

The total internal savings prior to 1914 were estimated at 2 milliard lire, which at the present official rate of exchange is equivalent to 50 milliard 1945 lire. Will Italian savers be able and willing to lend to the state and to private entrepreneurs 25 milliard lire each? In addition, will foreign bankers and capitalists lend to the Italian state the 25 milliards needed to complete the 50 milliards wanted for the state's ten-year reconstruction plan? Savers, Italians and foreigners alike, will come to the rescue only if a truly democratic regime can maintain law and order.

THE BREAD SUBSIDY. — From a strictly financial point of view, the first step to be taken is to put a final stop on those recurrent extraordinary expenditures which are the true causes of the permanent gap between revenue and expenditure. The first and foremost of these recurrent extraordinary expenditures is the bread subsidy. The cost of the 1 kg. loaf of bread is 15 lire, against a price of 5 lire. The present loss to the Exchequer is 18

milliard lire yearly and the loss will go up to at least 30 milliards when the north of Italy is liberated. This and this alone is the motor driving the presses printing banknotes. Italian savers are willing to subscribe to Treasury bonds and bills for the sake of the liberation and rehabilitation of Italian territory, but they are afraid to give money which is squandered on a purely demagogic bread subsidy. There is a limit to voluntary loans and taxes; and people feel that the limit has been passed when the state tries vainly to keep down the cost of living by subsidising bread at so huge a cost. Inflation becomes inevitable; general prices in their turn do increase; and wages and salaries are pushed up.

The old and new increases in the wages and salaries of state employees alone are estimated at about 20 milliard lire. The vicious circle will nullify the purchasing power of the lira if the source of inflation is not stopped at once. A generation ago, Signor Giolitti, the Prime Minister, and Signor Sotgiu, the Minister of Food, persuaded Parliament after a six-months' fight, to approve the act of February 21, 1921, which abolished the bread subsidy and rescued Italy's finances. When, on October 28, 1922, the march on Rome put Mussolini and the Fascists in power, the Italian state budget was balanced thanks to the courageous behaviour of the last democratic liberal statesmen.

295.

THE FRANCO-ITALIAN FRONTIER

Sir, — May I draw the attention of your readers to the peculiar character of the claims of France as regards her frontier with Italy? There are really two problems involved. It will be remembered that the crest of the Alps runs roughly south from the Swiss frontier until it approaches the Mediterranean, when it turns east into the Ligurian Alps, which eventually make connection with the Apennines. The first problem is where the frontier shall be drawn in relation to the crest of the Alps where the crest is running north and south. The second problem is the line between the mountains and the sea.

As the sea is for Great Britain, so the Western Alps are for Italy — the

295. August 17, 1946, p. 253. The article, signed, was published in the section: "Letters to the Editor".

natural frontier. There are intermixtures of dialects on both sides of the Alps; but people feel themselves to be Italian on the side of waters descending into the River Po and French on the side of waters descending into the Rhone. These feelings are the result of a long and difficult historical development. The small areas around the headwaters of the Po which have just been awarded to France provide a door to the Po Valley and its chief towns of Milan and Turin. They have for this reason been for centuries the object of disputes. As their respective fortunes rose or fell, so French or Italians assumed control alternately. In general, however, France succeeded even in her setbacks in keeping at least one place of great strategic importance until the Treaty of Utrecht, which fixed the crest of the Alps as the frontier between French and Italian lands. Its more detailed demarcation was ratified by two later treaties in 1760 and 1860 (after the cession of Savoy to France). These were said to consecrate perpetual peace and amity between the two countries.

The treaty of 1860 also fixed the line between the mountains and the sea. In that year, as part of the price paid for French help in the unification of Italy, not only the Duchy of Savoy further north, but also the County of Nice, were ceded to France. Nice had belonged to the House of Savoy ever since 1388, when the inhabitants freely gave their land, anxious to find a powerful protector after the ruin of the Provençal House of Anjou. There is no natural frontier here, as with the crest of the Alps farther north, and there is some justification for dissatisfaction with the frontier hitherto existing. For example, the "Hunting grounds" round Mollières (so called because Victor Emmanuel II used to hunt chamois there) are on the Var side of the watershed and properly go with Nice, but were left with Italy in 1860. The 1860 frontier also cuts into the middle of the Roya Valley, which is Italian at its head (Briga and Tenda) and at its mouth (Ventimiglia) but is French in the middle, at Saorgio and Breglio. The French now claim the headwaters, round Briga and Tenda, where the Italians have built large hydro-electric works. This would make bad frontiers worse and hand over to France, to whom they would make little difference, resources that would be a severe loss to Italy, which is poor in coal. The obviously logical thing to do is to effect an exchange of the "hunting grounds" against the French *enclave* of Saorgio, so that the frontier could follow the crest of the Alps in its eastward turn until the line can turn due south for the sea along the natural western limit of the Roya Valley.

We are now a conquered country and expect penalties to be imposed. But the renunciation of the Upper Roya Valley offends tradition, national sentiment and just economic interests. If necessary, this area, kept a part of

Italy, could be made a free zone. But to carry out the proposed unjust awards is truly the best method of reviving fascism and nationalism which, in my opinion, were dead in Italy as from July 25, 1943. It also harms wider European interests by throwing an apple of discord between the two sister Latin countries.

LUIGI EINAUDI

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UNPUBLISHED ARTICLES BY LUIGI EINAUDI
FOR THE ECONOMIST

1.

Italy. Strikes in industry and agriculture. A statistical series after 1880.

The after war fever. The 1923 abrupt fall. Red and Fascist.

Trade-Unions. Fascist speeches favourable to working classes aims.

Progress in consumption.

From our Correspondent

Turin, July 25, 1924

Among the various claims of Fascist to Italy's rescue from bolscevist ruin, perhaps the highest sounding is the decrease of strikes after the March on Rome. The recent statistical volume of the central labour office on strikes and lockouts (*I conflitti del lavoro in Italia nel decennio 1914-1923*, Roma, Ministero dell'Economia nazionale) contains some startling figures. The statistical series for strikes in industry begins in 1880 with 27 strikes, 5900 strikers and 91.899 days lost. Until 1895 the days lost remain well below 300.000; and only in 1894 they rise to 323.261. Suddenly in 1896, a strike fever set in: 210 strikes, 96.051 strikers and 1.152.506 days lost. Afterwards, the number of strikes frequently exceeds three figures (in 1907: 1880), of strikes always reach six figures (in 1913: 384.725) and of days lost seven figures (in 1913: 3.839.240 days lost). The war meant pacification; but the after war years were troublous indeed. Perhaps a table will be interesting for the last ten years:

1. The manuscript is kept in the Einaudi archives.

	Strikes			Lockouts		
	Number	Strikers	Days lost (000 omitted)	Number	Men locked-out	Days lost (000 omitted)
1914	782	173,1	2.086,0	12	9,4	35,7
1915	539	132,1	673,0	2	0,1	0,1
1916	516	132,6	737,4	3	0,4	3,5
1917	443	168,6	831,2	2	0,2	0,8
1918	303	158,0	906,5	3	0,7	3,9
1919	1663	1.049,4	18,887,9	8	4,8	110,3
1920	1881	1.267,9	16.398,2	16	18,1	211,3
1921	1045	644,6	7.772,9	66	60,3	782,3
1922	552	422,8	6.586,2	37	18,8	378,2
1923	200	66,1	295,9	14	7,1	151,5

The low figures during the war years is very natural, as wages went increasing and men were too glad to work in factories as an alternative to fight in trenches. As in all Europe, 1919 and 1920 see an epidemic of strikes. In 1922 the number of strikes was already lower than in the pre-war years, even if the number of strikers and above all of days lost was greater. In 1923 an abrupt fall takes place. The red (socialist) labour trade-unions, which in 1919 were responsible for 71,67 per cent of strikes, in 1923 are responsible only for 9 per cent. Their place is partly taken by Fascist corporations, not existent in 1919, which originate 22 per cent of strike cases. The most characteristic fact is that while in the epidemic year 1919 only 15.57 per cent of strikes, 3.42% of strikers, and 1.15% of days lost take place without previous organisation, in 1923 the figures are 58.50, 42.44 and 34.59 per cent respectively. Labour-Halls, red and catholic trade-unions are in 1923 silenced; no one dares to call workers to strike for fear of retaliation. In a few cases Fascist organisations take the lead; in a few others more numerous cases men leave work without previous concert. In the meantime, lockouts are decreasing also, but in a lesser proportion. Days lost, in consequence of lockouts, which were a very slight proportion of days lost in consequence of strikes, for the first time exceed 50 per cent. Big men are evidently much more sure in locking-out workers, than men in striking under Fascism.

Agricultural strikes do not tell a different story. In pre-war days the maximum number of days lost was reached in 1893 (1.718.378), 1901 (2.931.766), 1902 (2.024.833), 1907 (2.412.279), 1908 (2.705.293), 1911 (1.863.564). In war years figures went down: in 1918 we see a minimum: 10 strikes, 675 strikers and 3.270 days lost. In 1919 and 1920 agrarian agitation is inflaming Italy: 208 and 189 strikes respectively; 505.128 and 1.045.732 strikers; 3.436.829 and 14.170.991 days lost. After 1920 the fever is passing by: 89, 23 and 1 strikes in 1921, 1922 and 1923 respectively;

79.298, 25.146 and 110 strikers; 407.393, 330.679 and 540 days lost. The disappearance of strikes in agriculture is in 1923 even more total than in industry. The only strike is not due to any trade-union. It is a wildstrike, without previous organisation. One wonders about the causes of the almost complete elimination of a phenomenon which appears to be inseparable from modern industry. Undoubtably workers were tired of losing days of work, of unending agitation, of control and occupation of factories. They were only too glad to be relieved of chiefs who made living out of strikes. Perhaps, however, they feel to day that peace is over-trained. In recent days some chiefs of Fascist corporations are beginning to talk of capitalist obstinacy instead of cooperation between capital and labour. Signor Mussolini is reported to have said that business men have been enough benefited by Fascism; and that it is high time for them to have due regard to their workers claims. If they are obdurate, workers will have free hand in their conduct toward capital. These declarations savour very much of paternal government. Perhaps we will see in 1924 a size of strike figures as a compensation to the minimum ones of 1923. It remains to be seen if the swing of the pendulum will be as pronounced as the reaction from the top of 1919 has been in past year.

Indexes of conditions of working classes are not unequivocal. Population of old provinces, between December 31. 1921 and December 31. 1922 increased 876,257. Of these only 472,577 left Italy as emigrants. As unemployment decreased, between the same dates, 283.225, it seems that industry and agriculture were able to absorb almost 700.000 unemployed and new comers into working age. Real wages was maintained about at the old level: index of wages increasing between 1913-4 and 1923 from 100 to 480, while index of cost of life increased between 100 and 493. Perhaps, the best index of real conditions are goods consumed. From 1913 to 1923 the following variations may be noted in the consumption per head:

	1913	1923			1919	1923
Wine liter	40	50	Sugar	Kg	5.31	7.72
Beer "	2.19	3.09	Coffee	"	0.81	1.26
Spirits "	0.09	1.16	Tea	"	0.002	0.005
Oil (edible) Kg	19	29	Chicory	"	0.18	0.21
Fresh meat "	14	21	Tobacco	"	0.61	0.71
Salted "	4	19	"	"	9.19	69.29

These progresses are noteworthy and may be traced to new habits of life born out of contacts between soldiers and town habitants, to immigration from country to cities, to facilities of employment given to women and young men, whose wages, even at the old real rate, increased family in-

come. Figures seems thus to confirm personal observations of an all round betterment in the economic conditions of people after 1914.

2.

Italy. War debts and Italian point of view.

Foreign indebtedness and their true burden.

Rate of interest on saving certificates reduced. Gold reserve.

Competition to Railways. Sugar taxes and consumption.

From our Correspondent

Turin, December 11, 1932

The War Debt problem was the point about which centred in the past weeks the attention of public opinion. In the annual meeting of the Joint Stock Companies held in Rome, November 29, signor Mussolini being in the chair, the president of the Association signor Pirelli observed that the U. S. ought to receive, in the next years, 250 million dollars yearly on account of war debt; but their exports' loss amounted to ten times that figure. The present value of total European war debts may be put at 5 to 6 billion dollars.

Owing to the crisis, American securities holders had already lost more than 70 billion dollars, of which from 7 to 8 billions on account of foreign securities. The value of the annual produce of American agriculture is decreased by more than the above-said present value of war credits. The logical inference is that this tragic war accounting, as signor Mussolini called it, should be wiped out to the ultimate certain benefit of the creditors and debtors alike. In his session of December 7, the Great Fascist Council, while reaffirming the policy of cancellation and the principle of interdependence between reparations and war debts, decided that the sum due December 15 and amounting to 1.245.437 dollars must be paid. Negotiation ought to begin at once for a new agreement, more adaptable to the present world and special Italian situation.

Italy is more interested in the proximate future than in the immediate present of War Debts; annual payments towards United States and Great

2. The manuscript is kept in the Einaudi archives.

Britain increasing as time passes by an important cause of the relative Italian independence from world foreign exchange vagaries is our small foreign indebtedness. Replying to the Paris "Temps", our Roman contemporary "Giornale d'Italia" observes that at the end of 1932 the total of Italian foreign public and private debt – exclusive of War Debts but inclusive of the Morgan Loan – will amount to about 240 million dollars, whose interest and amortization service requires an annual sum of 40 million dollars. Not a big sum; whose meaning, must be qualified by adding that an important percentage of it is payable in Italy to Italian purchasers of Italian securities issued in the United States. What is the percentage is obviously unknown, as by law such Italo-American securities are not negotiable in Italy. The great popularity of such securities, especially of the Morgan Loan, in the investing classes, and the relatively high level of their quotations in New York makes me suspect that the greatest part of them has been bought back by Italy.

After increasing from 7.074,8 million lire on July 20, 1932 (the lowest level after stabilization) to 7.230,0 millions on November 20, the gold reserves of the Bank of Italy have experienced a slight set-back to 7.177,3 millions on November 30, owing partly to a payment on account of the Morgan Loan. The gold proper part of the reserve has continued, however, to increase; the 5.825,7 million lire figure on November 30 being the highest on record. The decrease affect only the devisen-reserve.

After a Bank's agreement reduced the rates of interest paid to depositors to a level between 2 and 3 1/2% a recent ministerial (Finance) decree decreased also after December 1, 1932 the interest paid to the postal saving certificates from 5 to 6%, to 4% for certificates running up to 22 months to a maximum of 5.50% for certificates running up to 15-20 years. Banks were much concerned at the state competition; but the present reduction will not lessen the tendency of small men to deposit their savings in the State coffers: thereby contributing to keep down the notes circulation. On November 20 the notes issued were down to 13.372,3 million lire; public exchequer keeping at the Bank of Italy a total deposit of 3.181,9 million lire. A strong and affluent situation of the Exchequer is, of course, a very good thing. The remarkable fact is that this affluence is the result of a policy, which by paying from 4 to 5.50% interest, absorbs savings from the market, and deposits them on current 1.50% account at the Bank of Italy. The Treasury pays a price for a transaction which I should say is the Italian substitutive of the Anglo-American open market policy. As the end is the stable-level of the lira, the price paid does not appear to be unduly high.

Competition of motor lorries to railways must be met by strong efforts on the part of State Railways. A new general schedule for goods transport is to be shortly published. In the meantime new special schedules for distances above 666 kilometers are announced which mean big sacrifices to the State. Mixed goods 10-ton cars from Turin to Rome, which paid 3660 lire will henceforward pay only 1864,60 lire. The reduction from Mestre to Bari will be from 4019,50 to 1996,80 lire; from Savona to Naples from 4088,50 to 2054.

A telling comment on the consequences of tariffism [*sic*] is contained in a parliamentary report by signor Righetti, M.P. on a sugar customs bill. The total tax burden on sugar is in Italy 5730 lire per ton (4000 excise tax and 1730 lire protective additional custom duty) against 1700 lire in Germany, 2675 in Belgium, 1890 in France, 590 in Great Britain. The sugar consumption in 1931-932 is valued at 22,1 kilograms per inhabitant in Germany, 28,4 kg. in Belgium, 24,2 kg. in France and 47,5 kg. in Great Britain. Italian consumption is kept down to 7,28 kg., for many reasons indeed, among which the tax burden must certainly be reckoned. Capital sunk in the industry increased from 428,4 million lire in 1928-929 to 803,1 millions in 1931-932; production was made to diminish from 345674 to 325000 tons; but consumption decreased even more from 355105 to 300000 tons. Industry is prosperous enough from a financial point of view only in virtue of strong centralisation.

Between the same dates the number of sugar companies decreased from 28 to 7; the few surviving ones acting through an highly unified selling cartel.

3.

Banking in Italy.

Turin, June 11, 1938

The complete edition, now issued, of the Governor of the Bank of Italy's report contains the usual banking statistics. This, together with a table on Clearing Houses' dealings, is the only remnant of the once full financial details, which made the report so invaluable a document. The last date considered is December 31-1936; but their trend is significant.

3. The manuscript is kept in the Einaudi archives.

The number of banks now included in the statistic is 2740, which is less than the total number 2914 of banks subject to the supervision of the "Defence of savings and control of credit Authority". The missing banks are, however, in process of liquidation or inactive or unimportant. Owing to the 1929-33 crisis, to the natural process of concentration and to stringent regulations the number of reporting banks decreased from 3738 at the end of 1928 to 3226 at the end of 1932 and to 2740 at the end of 1936. Their paid capital and reserves, after increasing from 8476,5 million lire in 1928 to the record figure of 8824,4 in 1932 decreased to 7809,7 in 1936. Profits, which amounted to 706 millions in 1928 for the profit making concerns (in the same year the losses suffered by the other banks amounted to 166,4 millions), decreased to 456,5 millions in 1932 (losses 148,9) and to 441,1 (losses 33,2) in 1936. Regulations, which forbid long-term financing to banks have contributed to reduce at the same time profits and risks.

On the debt side, the two most important items did undergo the following variations:

	1928	1932	1936
Deposits	37.705,6	37.527,0	39.633,6
Correspondents and current accounts	28.109,5	21.063,0	19.268,0

Roughly it may be said that, while deposits have increased, credit creation and floating trade balances have decreased.

On the assets side, corresponding changes are noticeable:

	1928	1932	1936
Discounts	24.002,3	23.220,5	18.552,1
Advances	14.720,2	13.757,6	13.965,5
Securities	11.772,5	23.220,5	18.552,1
Correspondents and current accounts	14.102,8	10.935,1	9.392,7

The decreases in discounts and current accounts may be attributed to lesser credit creation, to foreign exchange control, which reduce dealings in futures and to the diminution of commercial discountable paper, owing to the growing part of State-originated business. This may perhaps explain to a certain extent also the higher (1936 to 1928) level of securities held by the Banks. A comparison of the deposits figures between the extreme years for which data are given is given as a sample of the movements from one to another type of banks:

	1939	1936
Public Institutes and Bodies	3.615,9	5.771,0
Saving Banks	15.982,1	17.021,2
Agricultural Credit Institutes	92,4	53,0
Co-operative Credit Societies	6.744,2	4.532,1
Banks, joint stocks	10.867,9	9.702,8
" , private	1.090,6	554,9

The trend of changes in the depositors' preferences is clearly from private and joint stocks banks to semi-public and public bodies. The co-operative movement also is losing ground. People entrust more and more their saving to public bodies.

4.

*A memorandum on some possible misunderstandings between
Anglosaxons and Italian peoples.*

Luigi Einaudi to Geoffrey Crowther
(Genève, June 20, 1944)

Genève, June 20 1944
133 rue de Lausanne
(after July 20: Mittlerestrasse 2 Basel)

To the Editor of the *Economist*-Brettenham House, Lancaster Place, London, W. C. 2

Dear Mr. Crowther,

I send you, whom I believe to be the present Editor of the *Economist* newspaper, a few notes on economic and political topics which I hope you will perhaps find interesting to read. These notes are not necessarily intended for publication; as they were written merely for your information. I was, as perhaps somebody in the *Economist's* staff will remember, for many years your regular Turin (Italian) correspondent. -

Now I am living, as a refugee in Switzerland, hoping to go back as soon as possible to my country.

Please, if and when possible, extend my salutations to our common, I think, friends; professors von Hayek, Robbins, Hicks, Mr. Sraffa, Mr. Rosenstein-Rodan, etc.

Yours truly
Luigi Einaudi
Professor in the University of Turin

4. The manuscript is kept in the Einaudi archives.

There does not exist any substantial divergence between the aims of the Italian people and of the British-American Allies as regards the solution of the after-war economic, social and political main problems. And it would be therefore a pity if accidental misunderstandings could produce frictions and create suspicious. A few instances of such possible misunderstandings will suffice.

A few months ago was published in the "American Mercury" a very interesting article on after-war Italian economic planning. Italy should adapt her production and her exports to world exigencies as planned by the Economic Planning Council of the United Nations. The fuss about Wheat Battle and autarchy must cease. Italy should concentrate her labour and capital on the industries best adapted to her circumstances: silk, cotton, artificial silk, building of luxus passengers ships, cars, specialised machinery, agricultural processing industries (milk, olive oil, wine), sea merchantmen, especially in the Mediterranean and in South-American trade, tourist traffic etc. As a compensation to the reduction of wheat, iron and steel and other unnatural heavy industry production, Italy will be easily granted from a United Nations Pool an adequate quota of raw materials such as oil, coal, cotton, rubber, iron, steel, lead, tin, etc. If Italy could not at first fully pay, out of the proceeds of her exports, her imports, long term credits should be granted to enable her to resume at once her economic activity.

Well and good. I do not think there is anybody who in Italy is now anxious to continue the system of autarchy, of exclusivism, of prohibition, which were the fatal features of the fascist totalitarian regime. All reasonable people and, I think, all the representative men in the liberal, catholic, democratic, socialist and communist parties, are alive to the necessity of suppressing all the artificial industries which had grown up under the aegis of the restrictive economic policy of fascist war-mongers. But the Allies must carefully avoid committing a mistake which would inevitably have the most undesirable consequences: viz. the mistake of pressing on us by force that very policy which we would be only too glad to adopt spontaneously. Nationalist and totalitarian tendencies are not dead in our country. Fascism is dead; but the spirit of nationalism and of salvationism is alive. If the Allies will *order* to Italy to reduce the surface of the wheat land, even the staunchest free-traders would be impotent to stem the rising tide of the spontaneous chauvinist cry: the British and American peoples want to starve Italy to death! They want to have us at their mercy of our daily bread! If the suppression of the iron and steel and other heavy industries

were *enforced* on us, at once Italian people will no more remember that these industries are no more natural, in a general way, for our country as, say, rubber plantations or gold mines; but would say: Anglo-Saxons aim to strangle us out of any possibility of defending our territory against aggression. If somebody, with the best intentions, will tell us that we will participate in a United Nations raw materials pool, the reply will at once be: these wealthy people will give us only the remnants of their pantagruelic banquet, the useless overplus of their unsaleable goods.

I am afraid that the method of compulsory planning from some High Council, however reasonable and candid and well conceived in the true interest of Italy, however accepted by the authorized representative of a free Italian government, will excite only anger and resentment. Our representatives will be the target of the worst accusations and they will be banned as traitors and agents of foreign plutocratic financial powers. The only policy which has some, I would say the best, chances of success is a policy of give and take, of fair play. The United Nations ought to tell to the Italian people: we will sell to you in a free market, accessible alike to all would-be buyers, the raw materials which you will need at the same price and at the same conditions at which they will be saleable to ourselves and to other peoples; we will not levy, on your exports, such as silk, oranges, lemons, wine, machinery and so on, duties higher than a certain figure, at the same level as the duties levied on imports from whatever other country; and we will not restrict your exports by quotas and prohibitions. At the same time, you Italians will reduce or, better, suppress any duty on foreign wheat, on iron and steel etc. imports; and you will grant equally to the United Nations imports alike the most favoured nation clause.

That would be an intelligible, fair play speech, which we would appreciate very much. Protectionist landowners, heavy industries big men would be powerless against a fair play attitude of the victorious nations. Nobody in the democratic parties would dare to put himself at their side. All the world is persuaded that the wheat battle was a mistake, and nobody would be alarmed if the surface of wheat-sown land would be reduced by 30 or 40%. The land can and would be easily converted, in a more free trade world, to more useful crops. Nobody would be alarmed if the big iron and steel works, already partially destroyed by bombardments, could not absorb new good money in the after war years. So much the better. But everybody would feel aggrieved, if a chance was not given to some Italian iron and steel master to continue to produce and try to sell their produce at world competitive price. There are not a few experts who say that steel can

be produced in Italy, in well equipped and well located works, at a price below the competitive British and German level. If so, why not give the man a chance?

Surely, the policy of fair play, of equal opportunities to Italians as to other people, supposes a policy of free trade or more free-trade among the United and the liberated Nations. Probably this policy cannot be pursued, if some sort of economic custom or custom union cannot be started. I will not embark on discussing so difficult a topic. Suffice it to say, that, if Great Britain and the U.S.A. do not desire to inflame to the reddest red colour the worst nationalist and chauvinist passions in our country and probably in other countries also they should avoid the appearance of enforcing on us any policy even if they are sure that it is a benevolent and well-meaning and really useful economic reconstruction policy.

In a different field, the educational one, useless misunderstandings are alike ahead. In not a few British and American documents, dissertations are creeping up on the necessity of re-educating poor Italian youth grown up in a climate of totalitarianism, supine obedience to a charismatic Providence sent chief etc. There is talk of sending to Italy new well-written, truth-telling books, specially on history, ethnology, racial questions, international relations etc. Beware of propaganda! Nothing is so obnoxious to Italian ears as propaganda talk. Radio listeners did not hate, as they were unceasingly told, English and Americans; they hated only propaganda talkers. As soon as any of these men Gayda, Ansaldo, Appelius, Gray etc. began to talk, everybody turned the radio dial to music or silence. School-books of the fascist era were a feature, and a despicable feature too, of that universal make-believe which was called fascism. As it was merely a facade, it crumpled down overnight after July 25. Now, neo-fascism is prolonging a miserable life in North and Middle Italy under the protection of German bayonets; but there is no time life in it. United Nations should therefore beware of making Italians regret the old good time in which history, ethnology, international relations were taught in Italian schools, from the lowest to the highest, by silly fascistized books and professors. School books and school-masters and university professors imported from foreign countries would be despised and hated as propaganda-mongers. There is no need to be anxious. True Italian scholars will be obliged, much to their regret, to put to the pillory not so much the remnant of the fascist tendencies, — there will be none of it but the rampant multitude of anglophyle, americanophyle, ultra-democratic, anti-authoritarian, socialistophyle and com-

munistophyle authors who will begin at once to write school books and books for the general public on lines exactly opposite to that pursued until yesterday.

The very few publishing houses (there remained not alive before July 25 1943 more than two or three of them) which never bowed before the fascist joke will be submerged under the overflow of old fascist publishers who will try to make the public forget their old sins by over zealously promoting the new democratic ideals. Believe me: the Herculean task of true scholars will be in the after-war years to discover the very few good books among the too-abundant vegetation of anti-fascist, anti-nazist, anti-racial, anti-German literature. There will really be no need of importing well meaning books. If imported by foreigners and under the aegis of foreign institutions they will make odious the imported ideas. Let Italian publishing houses select, among the many, the only books which they will consider good for the Italian readers; let independent Italian scholars appreciate them and recommend the best of them to the Italian public. Let us make the selection, at our own expense, of the good literature, of the good history, of the good treatises on international relations from among the pile of bad rubbish which will pour on us from all sides, domestic and foreign; and in a free press and free speech new climate, some good result will come out of it; but, for God-sake, do abstain from lecturing Italian people on the necessity of distinguishing good democratic from bad fascist history; good tolerant from bad intolerant racial theories, good free trade from bad autarchical economics! Foreign lecturing, however well intentioned, will be the surest mean of converting tolerant, pacific, democratic, antifascist Italians into the worst sort of racialists and jingoist (patriotards).

There is a further great truth, which can easily pass into a deceiving slogan. Only a democratic system of government can be recognized by the Allies; only a democratic nation can be a part of the Comity of free nations. Let Italian people make a free choice of the system of government which they best like. Only a government which is the free choice of the Italian people can be called representative of Italy and, as such, admitted to discuss at the Round Table of the Peace Conference.

Well and true. But the public opinion of the United Nations and especially the Anglo-Saxon peoples have taken care to get a peep behind the curtain? It is easy to see now that the governments which had grown up during the twenties and the thirties in Italy, Germany, Spain and that the after-1940 Vichy regime were anti-democratic and anti-liberal systems.

But the Italian system of government before 1922 and the German system during the Weimar Republic period and the French system between 1871 and 1940 can be truly styled democratic systems in the same sense as are the Swiss or Scandinavian or British or American systems? Democracy had then, before, say, 1914, the same meaning in the continental Europe (excluding, as I have above hinted, Switzerland, the Scandinavian States and Holland) as it had in the Anglo-Saxons world? Alas! There was not the slightest resemblance between the two systems. It is difficult to hit upon a single word or a single institution which can resume the sharp distinction which we are bound to make between the two types of democracy, a distinction which changes from bottom to top the meaning of all the world of ideas which Anglo-Saxon peoples are wont to connect with the word "democracy". But if I were obliged to explain my argument with a single word I would write *Le préfet*. The *prefet* (Italian *prefetto*) is the chief of the French department, of the Italian province. The man is the successor of the Bourbon's Intendants; and it is mainly a Napoleonic creature. It is the villain of the piece. An Englishman, grown in the atmosphere of local self-government, a Swiss, jealous of his Canton, is, I am afraid, wholly incapable of understanding what sort of institution the *prefet* is. He is the center and the representative of a machinery which works from above and makes a farce of real democracy, which if it means anything, means self-government, government from below, government by a leader (President or Prime Minister) controlled by a Parliament, both elected or designated by the people. There is much talk, I surmise, of bureaucracy in Great Britain and in the United States. Books have been written about the decline of the Judicial Power and Growth of the Power of Public Servants. But the federal bureaucracy in the United States of America cannot work without the cooperation of the State's Governors and Legislatures in all State or mixed matters; but in Great Britain the central machinery would soon be made to stop if Counties, Boroughs and Parishes' elected authorities did not co-operate with the London Departments. Side to side with the Central Departmental Public Servants there exist multiple superimposed concurrent County Councils, Borough Councils, Parishes Councils' bodies of local Public Servants. Each of these bodies has a sphere which its his own and for the fulfilment of which it is responsible toward a local county, borough or parish council, which in its turn is responsible only toward the local electors. There is probably some interference between central and local government; and probably the central government enjoys a sort of supervisory control over the local authorities through grants in aid etc.

But the supervision is regulated by law; and the grants in aid are not fixed arbitrarily by the central government; but their amount is determined by statutes or general regulations.

The main lines of the continental system are wholly different. Provinces and Municipalities during the Fascist regime were deprived of the last vestiges of the self government powers they happened to possess beforehand. But these powers were very small indeed even before the advent of Fascism. Not a shilling can be appropriated and spent by the humblest village of the Apennines or by the biggest city of North of Italy without the leave of the Central government. The Mayor and Councillors of cities and towns and villages even if they were, before 1922, locally elected and even if they will be in future times again elected by local people, were and will be endowed with by far less real power than their chief-clerk (*Segretario capo*), who is a public servant, whose main duties is to carry on the orders, instructions, circulars pouring in from above, through the instrumentality of the *Prefets*. The Central Rome Departments have an exact counterpart, a diminutive reproduction of their self in all the provincial prefectures (of which there exist about 90 in our country). Through the 90 prefectures the central machinery works and grinds and destroys in fact every trace of local public life. The Rome Department of Public Education supervises and regulates through the whole of Italian territory the entire educational system: from the Universities to the rural elementary school of an Apennine or Alpine village of 100 inhabitants. No professor, no school master, not even a *bidello* (the school door-keeper) can be appointed without a royal or departmental decree. No text-book can be used by pupils in an elementary school without the leave or consent of some central departmental authority, coming down from the Minister, through the Prefet, and the *provveditore agli Studi* (the Provincial Educational Chief) to the most humble school-master. This centralized system, pervading all the branches of the public administration, is symbolized by the word "*Prefet*", the channel through which the orders from above are going to the farthest extremities of the peninsula; and it is this centralized system which makes "democracy" mean something wholly different in Italy (and in France and in Spain and, I think, in Prussia too) and in the Anglo-Saxon world. Once somebody has put his grip on the central piece of the machinery, he is the master of the country. Surely, there is a lot of difference if the "somebody" is a dictator like Mussolini or a party, like the Fascist one, more or less akin to a gangster's band, or if the same "somebody" is a party or a coalition of political parties aiming at the common good. But it is well to remember that

the difference is not a fundamental one; and it is well to remember that if fascism has dominated Italy, the origin of the mischief was the old centralized system of government. Why the Prime Minister in Italy was normally, I should say invariably, a few exceptions don't cancel the rule also the Home Secretary? Because in Italy, as in France, the Home Secretary (*Ministro dell'Interno*) is the chief not only of the Police, but also, through the *Prefets*, of the Local Government; and, through the *Prefets*, dominates or, better, *makes*, the elections. The Prime Minister, because he is also the Home Secretary and, as such, the master of the whole of the administrative machinery, is always sure of winning the elections. He is not so sure of keeping permanently his majority in the Parliament; but he is practically sure of a majority in the new legislature. Then, after a lull, begin a struggle between the political parties, the prize of which struggle is the Home Secretaryship. Signor Depretis and signor Giolitti never did want another ministerial portfolio. They dominated Parliaments and did make elections through the instrumentality of the Home Secretaryship and their stretched hands called *Prefets*. In a centralized State, real democracy is a word devoid of real substance. Citizen does not and cannot take part in the public life and in the daily conduct of public affairs. Once a general election is over, members of parliaments can only hope of getting something to the benefit of their electoral district if they are the political friends of the Home Secretary and *personae gratae* to the *Prefet* of their province. Fascism was only a rampant and corrupt exaggeration of a pathological feature of our public life; viz. the absence of a true public life. When a group of men, self-styled political parties had persuaded, once every four or five years, the electors, mainly through the influence which the government could always possess, with promises of new schools, new roads, grants in aid, rewards in the honours' list etc. to send them to parliament, the curtain was lowered and there was an end to political life. There remained two great guarantees of freedom: freedom of speech and freedom of press. When Fascism suppressed both of them, there was nothing left; because the government machinery was completely dominated by the man who was at the helm at the Home Department.

Such reflections as I have made do not purport to say that a democratic system of government ought not to be tried again in Italy. I am suggesting only that general free elections and that a freely elected Parliament will be only the beginning of the story. Democracy will be a reality only if and when Italians will abolish the *prefets*, i. e. when they will take away the present dependance of the local government (provinces, municipalities and

other public bodies, such as Universities) from the central governments; when the mayors and councillors of cities and boroughs and villages will not only be elected from below, but also, above all, empowered to conduct independently their affairs, to try new methods, to commit mistakes, being in the meantime responsible only to their local electors. Only thus we will by and by build up a true political class, capable of bringing competent men to the conduct of local and national affairs. There is no short way to this end. A general election will be the first beginning of a long struggle, which will perhaps bring us, after many trials and errors, to the possession of something like true democracy. The first after-war elections for a Constituent Assembly will unavoidably be a *kaki*-elections. Electors, after a long silence of more than twenty years, do not know the new men and will be absolutely unable to make a reasoned independent selection. They will be obliged to vote for lists presented to them by the self-appointed Central Committees of Political Parties. Under a new disguise, these first elections will be a plebiscite which will be 100 per cent antifascist, manoeuvred by the parties through the prefectoral machinery. There is not the slightest probability that these elections will represent the genuine will of the Italian people.

Two hypotheses can be made. Either each of the five or six parties will be successful in the struggle to keep each other in check and the Constituent Assembly will end in some sort of compromise. But it is possible that the most resolute party will conquer the governmental prefectoral machinery and then there will be again an end to freedom in Italy. *Italy to us!*, viz. the old Fascist battle-cry, is not openly held to-day before the public opinion; but is still the silent creed of too many men in our country. Who will be the victors to whom the good spoils will go? Nobody can tell. If we classify the parties according to the degree of resoluteness with which they have the will to put their hand upon the machinery and the will to maintain the conquered power, we can perhaps put them in the following descending order: the communist party, the action party, the socialist party, the demo-christian party, the liberal party. As for resoluteness, the last three parties, are hardly worth mentioning. All their hopes lie on the possibility of postponing the date of the general elections, of restoring in the meantime law and order, of maintaining full employment through reconstruction-work. If, at the same time, Italy will enjoy a period of at least twelve months of unlimited freedom of the press, there will be a chance that the Constituent Assembly will, as far as possible, represent true enlightened public opinion. Otherwise, the struggle between totalitarianism (the slo-

gans will be antifascist, but the substance will be the same) and freedom will be bound to begin again. But the chances of the victory of freedom in the Anglo-Saxon sense are very small indeed if Italians are obliged to make a choice of men at once in the dark. Democracy, viz., the respect on the one hand by the minorities of the will of the majority and the will on the other hand of the majority not to oppress minorities, is something foreign to the mentality of all Italians under 40 years of age. They don't desire freedom and discussion. They are longing for the Promised Land after the Hell of Fascism; and they will follow the party and the man who will promise them the Land of Paradise.

There does not exist a short cut towards attaining true democracy. Our worst enemy is not fascism; it is the universal longing after the man who will bring rapidly Italy to happiness and salvation; the longing after the good man, who will select good advisors instead of the charlatan who preferred bad companions. There is a lot of difference between a good man and a bad man; but I don't see much difference in political life so long as the machinery which works and grinds from above remains intact.

APPENDIX A

LETTERS

1.

Francis W. Hirst to Luigi Einaudi
(London, March 25, 1908)

March 25-1908

Dear Sir,

I was much interested in your letter to the *Economist* which agreed with that of another eminent Italian from Bricherasio [Edoardo Giretti]. I hope that before long, Italy will produce a Richard Cobden & a Sir Robert Peel. I am hoping to pass through Turin next May, &, if so, I should greatly value an opportunity of making your personal acquaintance.

Yours sincerely
F. W. Hirst Editor.

Professor Luigi Einaudi.

2.

Francis W. Hirst to Luigi Einaudi
(London, July 20, 1908)

July 20 1908

Dear Professor

I am much obliged to you for the article which will I doubt not be most valuable & interesting.

1. In the Einaudi archives. Francis W. Hirst was the Editor of *The Economist* from 1907 to 1916.

2. In the Einaudi archives. See note 1.

It is rather long for us, but I hope to be able to split it up. I am having it translated at once & if there are difficulties I will send you the proof.

Perhaps in a future article on Taxes in Italy you will put the technical terms in English as well; for you are such a scholar that I believe you write English as well as we do!

It was a great pleasure to meet you at Turin.

With kind regards

Yours sincerely

F. W. Hirst

P. S. We have a review of your book in proof which I enclose for your inspection.

We never publish the names of authors of articles in the *Economist*.

My idea of an article on taxes & their recent history in Italy would be a general one of about not more than 1500 words dealing with the important points – Food – Protection – Direct Taxes – Smuggling etc. & also how far the expenditure is *production*. Perhaps two articles

1. Expenditure growth of (a) production (b) unproduction.

2. Taxation

would be best.

3.

Luigi Einaudi to Luigi Albertini

(Turin, January 21, 1912)

Torino, 21-1-1912

Caro Albertini,

mi permetta che io le dica, cominciando questa lettera relativa al nostro colloquio di oggi per telefono, che Ella non è stato felice nel modo di pormi la domanda relativa alla personalità di Italicus dell'*Economist*. La prima volta trattavasi di soddisfare una curiosità dell'on. Luzzatti; oggi di rispondere a domande inquisitorie sul conto mio. Non ho nessuna voglia di soddisfare né all'una né alle altre; ed a tutte queste domande risponderò sempre che io non so nulla, che non confermo né smentisco, ma che le idee di quelle tali corrispondenze sono perfettamente simili a quelle da me sviluppate sulla

3. In the Einaudi archives. Luigi Albertini was the Editor of *Il Corriere della Sera*.

R[iforma] S[ociale], lasciando a tutti di trarre le conseguenze che credono dalla risposta.

Con lei, personalmente, e colla dichiarazione *esplicita* che non posso autorizzarla a ripetere a *nessuno* ciò che le dico, dico senz'altro che quelle corrispondenze sono mie. Fin che ero biasimato dall'*Economista d'Italia*, dalla *Finanza italiana*, dall'*Italia*, dalla *Tribuna*, ossia da gente che disprezzo, o male interpretato dal Luzzatti, che avrò sempre in gran rispetto, ma che ha preso dei solenni abbagli, non sentivo la necessità di rispondere. Con lei no. Ho troppe ragioni di gratitudine verso lei e troppa stima del suo carattere morale per non essere stato profondamente scosso dall'aver sentito dire oggi che quelle corrispondenze avevano suscitato in lei un'impressione penosissima.

Appena potei vincere me stesso, andai a rileggermi. Potrei dirle:

1) che quelle lettere (sono due, di cui la prima suddivisa in due senza mia cognizione) le scrissi per dimostrare all'Hirst che alcuni suoi giudizi a danno nostro erano erronei e ingiuriosi;

2) che erano state mandate (la prima) a guisa di appunti critici alle sue critiche e per sua privata informazione. L'Hirst invece ritradusse in inglese il mio cattivo inglese, mi scompaginò in parte il testo; cosicché di alcune frasi di attacco non sono responsabile, come della firma (e che colpa ho io se non si conosce il nome di nessuno dei corrispondenti dell'*Economist*?), della data di Milano ecc. ecc.

Ma tutte queste sono piccolezze. Pel 98% quelle lettere sono mie, sacrosantamente mie. E non me ne vergogno. E sapevo che mi avrebbero danneggiato se l'Hirst le pubblicava; e le mandai lo stesso. E sapevo benissimo che, leggendo gli articoli della *Riforma sociale*, non poteva sfuggire a chi sapeva leggere la evidente identità dei concetti. Perché non è vero che vi sia contraddizione fra quelli dell'*Economist* e quelli della *Riforma sociale*. Dove mai ho detto là che non bisognasse andare in Tripolitania? Anzi ho riferito gli stessi argomenti che usai poi per dimostrare che ne poteva venire un certo bene.

Tutto ciò che si può dire è che ho commesso un errore a scrivere l'una e l'altra volta. Quello sulla *Riforma* mi scatenò attorno la pazza gioia di quegli emeriti camorristi che sono i socialisti. Quelli sull'*Economist* fanno dire che io ho calunniato l'Italia, mentre ho parlato male solo di alcuni italiani. Nego e negherò sempre che l'una cosa abbia a che fare coll'altra.

Luzzatti è stato atrocemente calunnioso contro me e l'*Economist*. Parrebbe che io avessi scritto che "se una guerra così costosa e infelice continua ancora a lungo, il governo presente cadrà e le istituzioni monarchiche saranno scosse" ed altre cose di color sinistro sulle atrocità italiane e sul

candore arabo; mentre io scrissi appunto per dire che le profezie erano semplicemente profezie, per cui nulla si poteva dire da chi non conoscesse il futuro; e per riferire le autorevoli denegazioni dei corrispondenti italiani a proposito delle atrocità e per dire che il soldato italiano *non* era composto di “bloody veterans”, ma di “conscripts of from 20 to 23 years, and of a good and mild character, trained to patience” ecc. ecc. Parrebbe che io avessi detto che l'Italia non ha compiuto riforme; mentre, in confutazione dell'*Economist*, ne noverai parecchie.

Di tutto lo sfogo del Luzzatti (a parte le previsioni sulla rendita, in cui il testo, per quanto inglesizzato malamente, è conforme a quanto sempre sostenni) rimane che io avrei calunniato l'Italia perché avrei detto che, quando per merito della Tripolitania, non ci sarà più nulla da rubare, non vi saranno più ruberie pubbliche in Italia. Qui il mio torto è stato solo quello di non avere noverato in cifre le precise “pubbliche ruberie” (mai dissi di uomini pubblici) a cui il contribuente italiano è soggetto: almeno 15 milioni la marina mercantile, 35 i zuccherieri, 50 i siderurgici ecc. ecc. Maraini regala per la Tripolitania 150 mila lire dei molti milioni rubati all'erario ed è un grand'uomo; io sono un calunniatore del paese. Non posso far altro che ripetere ciò che scrissi nella terza lettera: “As, in common with *all* Italians, now that the expedition has been decided and is carried on by our Government, I wish for victory to our Army and Navy, and say that *all* Italians must be prepared to every sacrifice of blood and money, for the sake of avoiding a termination similar to the peace with the Abyssinian negro King, so I can disregard such criticisms of treachery”.

Confesso di aver avuto due torti:

1) di avere cercato di osservare nelle lettere all'*Economist* la più scrupolosa obiettività, senza dare nessun giudizio personale. Errai pensando che l'analisi potesse essere considerata come tale e non come una critica. Casomai, di critiche ce n'erano per tutti i partiti. Non per questo si dovrebbe decentemente dire che calunniavi l'Italia. Questo è fare un processo alle intenzioni, ed allo spirito intimo della narrazione.

Collo stesso diritto potrei dire che l'on. Luzzatti ora si affanna a difendere l'Italia contro i suoi pretesi calunniatori per far dimenticare le tenerezze pei giovani turchi. Falsa questa e falsa quella illazione;

2) di aver in novembre e in dicembre preso paura per l'intolleranza dell'opinione pubblica contro chi faceva qualche critica, intolleranza di cui provai qualcosa anche nei rapporti con amici. Onde nella *Riforma sociale* esagerai l'inno al carattere morale e prospettivo dell'impresa. Avendo concepito quell'idea me ne suggestionai; ma ora quasi sono dolorosamente

convinto che ha ragione Giretti e che ho torto io; e che ragionai su speranze chimeriche.

E con ciò ho finito non la mia difesa, ch  non ritengo di averne bisogno, ma la mia doverosa spiegazione con Lei. La Tripolitania mi ha cagionato amarezze infinite. Una delle maggiori   che la differenza di opinioni sull'impresa stessa ed ora per ci  che   patriottismo o calunnia in rapporto all'impresa, mi rendono impossibile oramai di scrivere pi  pel *Corriere*. Oggi ho spedito la mia ultima rivista dei metalli; ed ho pianto nel separarmene. Non perci  lei mi vedr  mai scrivere, dovessi vivere cent'anni, su nessun altro quotidiano.

Posso sperare almeno di essere lasciato tranquillo alla mia scuola ed alla famiglia ed alla mia storia piemontese, a torto abbandonata per occuparmi di cose che mi commuovono, che mi fanno scrivere per forza ci  che mi passa per la mente e che mi procurano ogni sorta di accuse ingiuste, oggi per la Tripolitania, ieri pel monopolio?

Mi abbia con l'antico affetto suo

Luigi Einaudi

4.

Francis W. Hirst to Luigi Einaudi

(London, February 2, 1912)

2nd February 1912

Dear Sir,

I am surprised and shocked to hear that eminent persons in Italy should be accused and persecuted for writing an article to the *Economist* signed "Italicus". As an honorable man, and as the editor of a paper with a long and honorable record for independence and integrity, I should never dream of disclosing the name of my correspondent, and therefore I am unable to state that any particular person is not the author; since by so doing I should greatly be assisting those who in Italy appear to be desirous of prosecuting freedom of thought and of opinion. Apart from this however, either you or any other person who is falsely designated as the writer of these articles is fairly entitled to deny their authorship. I should like to add however that friends of mine in London who are also on the most friendly terms with the Italian Government,

4. In the Einaudi archives.

informed me shortly after the ultimatum that the Italian Government was very much surprised at the unfriendly tone of the *Economist*. I replied that the criticisms of the *Economist* were based upon the well-known principles of the paper and that the correspondence columns were just as free and open to Italians (or Englishmen in Italy) who agreed with the policy of their Government, as to those who dissented from it. I added that I would print an *anonymous* article *supporting* the Tripoli policy from any minister or official. Since then, I have heard no more on the subject and I can hardly believe the rumour you mention to be true, that the Italian Government contemplates proceedings against any person or persons upon so extraordinary a charge as that of having contributed an anonymous criticism of its policy. Such a proceeding would have a most unfortunate effect upon public opinion in Western Europe, as an attack on the freedom of the press. You are quite at liberty to make any use of this letter that you please.

I am,

Yours faithfully,
F. W. Hirst
(editor the *Economist*)

Professor Luigi Einaudi

5.

Hartley Withers to Luigi Einaudi
(London, April 14, 1920)

14th April, 1920

Prof. Einaudi,
Piazza Statuto, 16
Turin, ITALY

Dear Prof. Einaudi,

I have had many complaints lately of the inadequacy of the correspondence which we receive from Italy. Unfortunately I have very little space to give nowadays even to the most important matters in the *Economist*, but I should be much obliged if you would be good enough to let me have regular letters, say once a fortnight, dealing as concisely as possible with the economic position in Italy, especially, of course, with regard to taxation,

5. In the Einaudi archives. Hartley Withers was the Editor of *The Economist* from 1916 to 1921.

LETTERS

currency, labour etc. The letters should not exceed about 800 words in length.

I hope that you may find it convenient to make the valuable contributions we have had from you in the past a more regular feature in the future, and remain,

with very kind regards,

Yours sincerely
Hartley Withers Editor

6.

Norman Crump to Luigi Einaudi
(London, December 11, 1928)

London, December 11th 1928

Professor Luigi Einaudi,
Via Lamarmora, 60,
TORINO, Italy

Dear Sir,

I have received an inquiry from one of our readers, and should be very grateful for any information you can give me on the points specified as regards Italy:

A. National taxation per head of the population, i.e. central government taxation apart from rates expressed in £. s. d. at their present exchange.

B. National taxation per head of the population, including rates.

C. Central taxation and total taxation expressed as a per centage of the National Income.

Thanking you in anticipation, I am,
Yours faithfully

THE ECONOMIST NEWSPAPER LTD.
Norman Crump
Intelligence Branch

6. In the Einaudi archives. Norman Crump was the Banking Editor of *The Economist*.

Luigi Einaudi to Norman Crump
(December 17, 1928)

December 17, 1928

Mr. Norman Crump [*sic*]
The Intelligence Branch
of the Economist
London E. C. 4

Dear Sir,

To the questions which you put me in your letter of December 11 it is not easy to reply without a more or less large margin of error. If we suppose:

- I. To take as the basis date January 1st 1926, to which refers the last authoritative estimate of the national income (by professor Mortara);
- II. That at the same date the national income is 110 milliards lire;
- III. That the population was 40.964.000;
- IV. That the national taxation i. e. central government taxation, excluding industrial services revenue (railways, post, telegraph, etc.) but including net profits from them, as being State monopolies, and also net revenues of other State monopolies was 17,8 milliards lire.
- V. That what you call "rates" for which we have not an exact equivalent, corresponds to our local (provinces and municipalities) taxation, defined as above, amount to 4.2 milliards lire;
- VI. That the rate of exchange was 120 lire to 1 pound sterling in January 1926 and in 92.65 lire to 1 pound sterling at present,

– then we may obtain the following results:

	A	B
	At the January 1926 rate of exchange (120 to 1)	At the present rate of exchange (92.7 to 1)
I National taxation per head of population	3.12.5	4.13.9
II Local taxation per head of population	0.17.1	1. 2.2
III Total	4. 9.6	5.15.11
IV Total of national percentage	20%	?

The figures under B are largely uncertain, because we cannot use the *present* rate of exchange for *past* facts. Subject to strong reserves I should say that, after stabilization: internal retail prices, wages, salaries rents have decreased less than 23 per cent, which is the ratio of decrease from 120 to 92.65. Therefore, national income valued in paper lire is diminished less than 23% under 110 milliards lire;

- national taxation, central and local, does not appear to have diminished very much between January 1, 1926 and the present date;
- national taxation per head of population may be therefore at present something less than £ 5.15.11, but it is certainly higher than £ 4.9.6;
- the percentage of total taxation to the national income is at present higher than 20%.

A 20% percentage is to be judged in relation to the average Italian individual income per head. Clearly a 20% percentage is heavier on a £. 26.17.6 average individual income than it would be for a nation whose average individual income were 50 or 100.

Owing to the difficulty of making a truly scientific calculation, I should not feel able to put as yet my name under the above estimate, how ever made to the best of my knowledge.

Yours sincerely
[Luigi Einaudi]

7.

P. M. Wallace to Luigi Einaudi
(London, November 6, 1931)

London, 6th November, 1931

Prof. Einaudi,
Via Lamarmora, 60,
Turin, 10.

Dear Sir,

The Editor would be glad if, until further notice, you would be good enough to send your correspondence twice a month, i. e. to reach us on the first and third Thursday of each month.

If, however, in the interval between your letters, any event of outstanding importance should occur which, in your opinion, merits immediate notice in our columns, perhaps you would be good enough to send a short note covering that particular item of news.

Yours faithfully
P. M. Wallace
Secretary to the Editor.

7. In the Einaudi archives. P. M. Wallace was the secretary to the Editor of *The Economist* from 1922 to 1938.

8.

Donald Iyerman to Luigi Einaudi

(London, May 16, 1940)

May 16, 1940

Professor Einaudi,
Via Lamarmora 60,
Turin 10.
Italy.

Dear Professor Einaudi,

Since the present severe rationing of paper makes it imperative for *The Economist* to cut down its space as much as possible, I am writing to ask you to reduce the length of the regular Overseas Letters you send us. It would be most undesirable to lessen the *scope* of the World Overseas section by actually leaving letters out; the usefulness and interest of the section largely depend on its comprehensiveness. Will you, therefore, as a temporary measure, reduce the *length* of your contributions to *no more than half* of what it has been in the past.

I regret very much having to ask for this reduction. But it is unavoidable, and I hope that at some time – not too far distant – it will be possible to reinstate the Overseas section in its old fulness. I know we can rely upon you to co-operate now as you have done in the past, and I take this opportunity of thanking you for all your services.

Yours sincerely,
Donald Iyerman
Assistant Editor

8. In the Einaudi archives. Donald Iyerman was the Assistant Editor of the *Economist*.

9.

Geoffrey Crowther to Luigi Einaudi
(London, January 15, 1945)

15th January, 1945

Professor L. Einaudi,
Bank of Italy,
ROME,
Italy.

Dear Professor Einaudi,

We read with great pride and pleasure the news of your appointment to the governorship of the Bank of Italy. This brief line is just to send the congratulations of your associates on the *Economist* and to say that the regret that we feel from the knowledge that your contributions to the paper will not now be resumed are outweighed by the feelings of pleasure in the knowledge that you are moving to still more useful work.

I shall hope before very long to call upon you in Rome.

Yours sincerely,
Geoffrey Crowther

10.

Walter T. Layton to Luigi Einaudi
(London, May 2, 1955)

2nd May, 1955

Dear Mr President

At this moment when you are laying down your long and distinguished Presidency, may I offer you my warmest congratulations on the great service that you have performed for your country in steering it through this very difficult decade. Italy has passed successfully through financial difficulties which might so easily have resulted in disaster; she has made a political recovery which has revived her prestige in the community of nations.

9. In the Einaudi archives. Geoffrey Crowther was the Editor of *The Economist* from 1938 to 1956.
10. In the Einaudi archives. Walter T. Layton was the Editor of *The Economist* from 1922 to 1938.

APPENDIX A

Future historians will say how much she has owed to you in these and many other directions.

The Economist is conscious of enjoying a little reflected glory from your achievements; it will always be proud of the fact that the man who was its Italian Correspondent for so long was President of Italy during these crucial years.

My son and daughter-in-law are paying a visit to Italy in connection with the work of the Steel Committee of the Economic Committee for Europe, with your permission they will present you with this letter.

Yours very sincerely
Walter Layton

His Excellency President Einaudi,
Palazzo del Quirinale,
Rome.

APPENDIX B

IN PRAISE OF LUIGI EINAUDI

1.

A GREAT ITALIAN LIBERAL
From our Rome Correspondent *

This week Luigi Einaudi began his seventh year as the first President of Italy, which is the last of his present term of office. Outside the country he is perhaps better known as an eminent economist than as President of the Republic. This is due in part to his own determination to shun the limelight and partly it is a tribute to his success in smoothing the path of the new Italy's economic and political system. Presidents, like doctors, leap into the public eye only in a crisis. And it was not till the Italian parliament ran into difficulties after the elections of last June that the nation became aware of the tremendous prestige and authority which Signor Einaudi had steadily built up for the institution of president, during his five years in office. Bypassing the Christian Democrat Party machine, he nominated his disciple and fellow-Piedmontese, Signor Pella, as caretaker Prime Minister and thus steered the Italian parliament out of dangerous impasse. Another similar crisis may well put the President's statesmanship to an even severer test. No one who knows his unique combination of qualities doubts that he will be equal to the demands made upon him.

President Einaudi's achievements are the more remarkable in view of the very limited powers conferred on him by the postwar constitution. Apart from the customary formal and honorific functions, he is authorised to nominate the Prime Minister, dissolve one or both Chambers, indict new elections, authorise the presentation to parliament of draft bills, return such

1. *The Economist*, May 15, 1954.

* A letter from Antonio d'Aroma to Luigi Einaudi (May 16, 1954) allows us to attribute the article to John Cairncross.

drafts to the government if he is unwilling to endorse them, promulgate the laws when passed by parliament and make certain appointments on his own initiative but with the concurrence of the relevant minister. But Signor Einaudi had to struggle to secure the full exercise of even these few rights.

Deputies Have to Think Again

To start with, the President was identified with the monarch whom he had replaced. The King had been a mere rubber stamp and it was sub-consciously assumed that his substitute would be equally pliant. After considerable public debate and a private tussle, the President's right to appoint, for example, five judges to the Constitutional Court on his own initiative, but with the government's endorsement, was accepted. In the same way, it is now common ground that the government of a prime minister nominated by the President is fully entitled to govern, even before it has received a vote of confidence. If a weaker or less lucid figure had occupied the Quirinal, the outcome of the disagreement might well have been different.

Had he been so inclined, President Einaudi could easily have created for himself powers far in excess of those laid down by the constitution. As it is, he has been content to make sure of the full enjoyment of his authority within the limits roughed out in the relevant provisions of the constitution. And the house that he has built on the slim foundations that these provide is an impressive edifice. To the surprise and, at times, annoyance of Parliament, he has made use on four occasions of the power to return a draft Bill to Parliament with a message requesting deputies to think again. Technically, he exercises this function as the guardian of the constitution. In fact, his message are used to expound his own liberal convictions. One such *exposé* drew attention to a violation of the article of the constitution (inserted at his insistence) that fresh expenditure must be met from a new or increased source of revenue. Another message, issued last November, laid bare the dangers inherent in the levying by certain sections of the civil service of charges on the public for the execution of services to them. He pointed out that this practice is not subject to proper parliamentary control, that it makes the citizen appear to exist for the benefit of the state and not *vice versa* and that it sets up a private monopoly or privilege.

Voice in the Wilderness

It would hardly be possible to deliver a more telling blow at three of the major abuses which vitiate Italian economic life – the private cut, the

authoritarian official, the tendency to regard every business or official position as a potential monopoly. But, alas, Signor Einaudi's voice has too often sounded in the wilderness. Nevertheless, his influence in detail on public affairs has been far from negligible. Every draft Bill submitted to him is carefully studied and minuted and in this task, as in others, he has at his disposal the services of a small but hand-picked staff of outstanding ability.

Much more apparent and incontestable has been the decisive influence exercised on finance and economy, through his disciples and former subordinates such as Signor Menichella, Governor of the Bank of Italy, and Signor Pella, first as Minister of Finance and subsequently as Prime Minister. These men and others like them have done little more than continue the "Einaudi line" formed when he himself became Governor of the Bank of Italy at the end of 1944 and, in 1947, Minister of the Budget. By restricting credit, dismantling a large part of foreign exchange control, liberalising imports, trying to balance the budget and encouraging saving, he laid the foundations for Italy's remarkable economic recovery. It may be contented that, in a country with the millstone of the undeveloped South hanging round its neck, stability and freedom are not enough. But they are certainly three-quarters of the problem.

When President Einaudi retires to his model farm in Piedmont in a year's time, his departure will mark the end of the last link with the great days of liberal pre-fascist Italy. And the forces of integrity, simplicity and love of liberty, already gravely weakened in this country, will suffer a further and, it may be, irreplaceable loss.

2.

OBITUARY OF LUIGI EINAUDI

Luigi Einaudi, scholar-statesman, liberal economist and second president of the Italian Republic from 1948 to 1955, who died on Monday, was surely the most distinguished of all foreign correspondents of *The Economist*, for which he wrote regularly from Italy in the years before the last war.

2. *The Economist*, November 4, 1961.

3.

IN COMMEMORATION OF PRESIDENT LUIGI EINAUDI

by Walter T. Layton

When Professor Donini* invited me to speak at a meeting at the Italian Institute in commemoration of former President Einaudi, I was greatly honoured and realised at once that this was an invitation that I must accept. Though he was ten years my senior we had been fellow craftsmen for a very long time and I had been fully aware since the early twenties that we held many ideals in common both in the commercial world and in matters of public policy. Though I have no record of the date on which *The Economist* printed his first message as its Italian correspondent I think Professor Einaudi must have held that office for at least the seventeen years of my editorship which ran from the 1st of January 1922 until just after Munich.

But though I accepted Professor Donini's invitation I did so with some misgiving for in May 1941 the Economist office in Bouverie Street was destroyed by enemy action and almost every file or document we possessed was burnt. Certainly no staff records survived. I am therefore dependent for all that happened before the second world war on my memory and that of Einaudi's contemporaries on the staff of *The Economist*.

I am, however, more fortunate regarding Einaudi's post-war achievements and in particular that for which he will chiefly be remembered – the success of the "Einaudi Plan" in stopping and reversing the post-war inflation of 1946-1947. After the armistice of 1943 Einaudi, who had never concealed his anti-fascist views, had to flee to Switzerland; but eighteen months later when the Hitler regime was crumbling and the German forces in retreat from Italy, Einaudi returned home and with his high repute as an economist was appointed in quick succession to be Governor of the National Bank of Italy (1945), Minister for the Budget (1947), and first President of the Italian Republic (May 1948). It was in the second of these offices that Einaudi planned the campaign to stop inflation. A country that for more than two years has been the battleground of invading armies, that has had to put up with two or three independent administrations and unfamiliar currencies, was bound to emerge in a state of economic confusion,

3. Speech given by Walter T. Layton at the "Istituto Italiano di Cultura", London, February 20, 1962. The original is in the Layton Papers, Wren Library, Trinity College, Cambridge.

* Filippo Donini was the director of Istituto Italiano di Cultura, London.

and when Einaudi became Minister of the Budget prices were sky-rocketing and the value of the Lira was in grave danger.

There was nothing very original about the particular measures that Einaudi adopted. The discount rate was raised, credit was restricted by new regulations prohibiting banks from lending more than 75 per cent of the cash deposited with them, the remaining 25 per cent being held as a minimum reserve. The resources of the Industrial Reconstruction Institute were used to get new enterprises going again and measures were taken in conjunction with the Minister of Finance to induce Italians to pay their taxes. In short, Einaudi tackled the problem on every front.

But if Einaudi's specific measures were orthodox, what was unusual was the courage and persistence of Einaudi and those who were associated with him in carrying them out even if at first they might involve hardship and set-backs to trade. He and his colleagues were justified by results. The threatening flood was checked and in spite of Italy's handicaps in those post-war years but with the aid of the traditional industry of Italian workers and a generous allocation of Marshall Aid the Lira has come to be classed among the hard currencies.

Judging from the terms in which so many Italians speak of him, Professor Einaudi must have had a very great influence on successive generations of economic students who have passed through his hands in the decades when he was mainly concerned with his academic work or with journalism. Though his influence over the young economists of Italy could not have been exercised unless he had been an outstandingly good economist, his influence was due to something much more than technical efficiency. Einaudi had qualities with a much wider appeal. He was a man of culture and had the integrity, knowledge and varied interests that go with such an outlook. He was a civilised understanding man.

He was, in fact, in the Liberal tradition that stems from Cavour. The fact that in spite of his known hostility to the regime he was able to live in Italy unmolested until 1943 may be partly due to his high international reputation.

His prestige at home must have been a great help to him in getting acceptance in Italy itself for the measures that he sponsored.

In April 1949 on my way home from India I stopped at Rome and spent nearly four days there to gather at first hand an impression of post-war Italy. My dozen or so interviews included a long talk with the President.

My first interview was with Dr. Menichella who had succeeded Einaudi as Governor of the Bank of Italy. I was interested to find that he, like other

economists and businessmen whom I met, was proud to regard himself as a follower of Einaudi and as the executant of the Einaudi Plan. But even in Italy all is not plain sailing, for on Tuesday the 5th April I found the Bank of Italy closed down, I was escorted into the office of the Governor through empty corridors by senior members of the staff, as the clerical staff were on strike for higher wages.

Last but not least I must say something of Einaudi as journalist. There must be very few professional journalists who become Head of State or Prime Minister but surprising as it may seem Einaudi was not entirely unique. In that corner of heaven where political economists foregather he will not feel either lonely or out of place. On the contrary he will find there at least one other person who will understand what he is talking about. When I first met Chancellor Bruening at a Reception at Chatham House in the summer of 1931 he told me that as a young man he used to write every year the article on Prussian railways for the *Economist*.

As all our records were destroyed in the second war I asked Graham Hutton and Douglas Jay, one or other of whom dealt with copy from overseas in the thirties, what impression they still retain of Einaudi's letters, their substance and its form and manner. Both have written to me about him. In Graham's recollection his copy was always beautifully clearly expressed in rather Victorian English (which of course must have been what he learned as a child): Far, far better than X Y Z's which later drove Douglas nearly crazy. It seemed to us young'uns that Einaudi was very clever in wrapping up his trenchant criticisms of Mussolini's henchmen's financial and fiscal policies in abstruse references to the city-States of the Middle Ages. One of his pupils who was sent over to England warned me to watch out for any medieval references as Einaudi would always draw remote historical parallels in order to put us on our guard and so indicate what he really thought. I believe that Einaudi's regular pieces in *The Economist* were a thorn in the flesh of the Fascisti, but so far as I know they never protested to us in London and I always understood that while Einaudi had to keep more or less in one place (Turin) he was never molested or hauled before a court or anything like that. I think he suffered threats but I do not think they ever materialised and I think this was entirely due to the world renown of *The Economist*.

Douglas's main memory is that Einaudi's letters were mostly economic rather than political and were strongly Free Trade, laissez-faire and sound money in theme. This was in the years 1933-1936. Italy had a weak balance of payments and Einaudi was constantly insisting that this should *not* be cured by limiting imports because the world would – he thought – re-

act against Italian exports. The political comments were sparse and to Douglas as to Graham, were naturally cryptic, but the former did get the impression from them that he did not regard the Mussolini regime as above criticism! He adds that I warned him not to try to improve Einaudi's English style because he (Douglas) might unwittingly introduce dangerous implications and that instruction he always tried to observe.

Douglas never met Einaudi but Graham called on him at his home in Turin and from this visit drew a thumb-nail sketch: "He was small, birdlike, bright, nimble-minded, the nicest type of North Italian or Latin, and had an omniverous mind, which filled his talk with intriguing (but often remote) references to all kinds of other topics. He had a great love of England and rated the role of England in European affairs very highly. He was very sad that, after 1919, England seemed to turn her back on the Continent. He also thought that the worldwide cause of liberal, humane culture hung heavily on whatever England would – or wouldn't – do. He never, as far as I know, complained; either about domestic Italian or foreign developments, except to deplore what it meant to our common European motherland, which he felt to be the mother of all arts and knowledge".

Graham's sketch is not unjust and when I called upon him at the Quirinale in April 1949 his lack of inches was emphasised by contrast with the exceptional height of the Palace guards.

After discussing his own family affairs (our correspondent in Geneva had been helpful to one of his sons) Einaudi talked about *The Economist* and his early association with it. He was worried because there is apparently (or was at that time) only one complete file of the paper in Italy and he regrets that every attempt to produce something like *The Economist* in either France or Italy has hitherto failed. He asked me to explain again to him the precise functions of the Trustees of *The Economist* and their relations to the Board of Directors. Geoffrey Crowther had explained this to him when he called at his country home in Italy but he was anxious to check his recollections. So I repeated to him that no editor could either be appointed or dismissed without the consent of our four trustees who must not, however, have any financial interest in the paper. The editor has sole control of policy. It is not surprising that an independent-minded professor and journalist should often chafe under the restraints inevitably imposed on those who have lived for a long while under a dictatorship and should be constantly on the look-out for some means of protecting the independence of the Press. But I fear that there is no known way of giving legal protection to the press of a country which is ruled by a dictator who at any moment can change the laws to suit himself.

We then discussed Western Union. Einaudi, who wrote on this subject 30 years ago, after the first world war, believes that federal institutions will ultimately be needed and he has given direct support to the Federal Movement in Italy. He asked me my opinion whether it was right to support a Consultative Assembly or whether those that believed in an Assembly should stand out for a body with specific powers. I gave him the reasons which led the British Government to support a Consultative Assembly and in particular the following:

Whatever form the unification of Europe may take it is a safe bet that it will be unlike anything that has happened before. To bring together 10 or 20 states which are fully developed indeed past middle age, with set habits, established administrative practices and long traditions and to make them conform to a pattern is a unique experiment. No one today can see what is the right solution. It is certainly not stereotyped like the Constitution of the United States. It must be reached by trial and error and must continue to be elastic and evolutionary. In these circumstances to set up a federal body with defined legislative powers would be out of place and certainly premature. Nevertheless it is essential to find some means of expressing and developing public sentiment and bringing it to bear on the actions the Government are taking. Therefore as a matter of tactics it is desirable to start on an advisory basis.

Einaudi accepted all these arguments and after discussing some of the personalities involved in Western Union, inscribed a copy of his book on the subject and closed the interview.

In the following month the Statute of the Council of Europe with its Committee of Ministers and its Parliamentary Assembly was signed; and as the great debate between federalism and functionalism developed I was struck by the strength of support for the federal idea among both Ministers and the parliamentary members of the Italian delegations. Prime Minister De Gasperi for example stressed in his speech to the Assembly of the Council of Europe in 1951 that the people of Italy needed some higher ideal than the national state and like Einaudi believed that it would be found in the civilised culture of Europe. These are but two among a very large number of Italians, who more perhaps than the people of any other European country have set their hopes for a new and brighter future on a United Europe. The prospect of attaining this goal will be bright if Italy continues to produce leaders with the integrity, wisdom and persistence of its first president Signor Luigi Einaudi.

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